State of Tennessee
Health Services and Development Agency
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Nashville, TN 37243

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Date: **December 2, 2016**

To: **HSDA Members**

From: **Melanie M. Hill, Executive Director**

Re: **CONSENT CALENDAR JUSTIFICATION**
Johnson City Medical Center, Johnson City (Washington County), TN – CN1610-035
The addition of a 1.5 Tesla Magnetic Resonance Imaging (MRI) scanner, to be located at 400 North State of Franklin Road, Johnson City, TN. This project will not involve any other service for which a certificate of need is required. The estimated project cost is $2,023,108.

As permitted by Statute and further explained by Agency Rule later in this memo, I have placed this application on the Consent Calendar based upon my determination that the application appears to meet the established criteria for granting a Certificate of Need.

Need, Economic Feasibility, Health Care that Meets Appropriate Quality Standards, and Contribution to the Orderly Development of Health Care appear to have been met as detailed below.

If Agency Members determine the criteria have been met, a member may move to approve the application by adopting the criteria set forth in this justification or develop another motion for approval that addresses each of the criteria required for approval of a Certificate of Need. If one or more of the criteria have not been met, then a motion to deny is in order.

At the time the application entered the review cycle, it was not opposed. If the application is opposed prior to it being heard, it will be moved to the bottom of the regular December agenda and the applicant will make a full presentation.

Summary—

Johnson City Medical Center (JCMC) is a large (585-bed) not-for-profit general hospital located in Johnson City, Tennessee. It serves as the flagship hospital for Mountain States Health Alliance (MSHA) which is a large, integrated, not-for-profit health system based in Johnson City. In addition to 13 hospitals, it also operates

numerous other facilities and services. At its main campus JCMC operates a Level 1 Trauma Center, Niswonger Children's Hospital, and the Northeast Tennessee Regional Perinatal Center, which is one of Tennessee's five Regional Perinatal Centers capable of providing Level III or Level IV obstetric and neonatal care. JCMC is the largest provider of hospital-based TennCare services in the region. Please refer to the Executive Summary for a description of the types of services it provides to over 1.1 million residents of southern and central Appalachia.

The project proposes to add a 3rd MRI unit on campus in space currently considered part of the Emergency Department to be used for inpatients, outpatients, and patients requiring emergency services. The clinical applications include MRI procedures requiring sedation, including anesthesia, for both adults and pediatric patients. Other clinical applications include advanced neurology capabilities with diffusion/perfusions, orthopedic imaging, high resolution angiography and abdominal imaging, and total body imaging utilized for oncology studies. The complexity of many of these scans takes much longer than the typical 30-minute MRI scan.

JCMC also operates a fixed MRI unit at 301 Med Tech Parkway in Johnson City in an outpatient diagnostic facility that is utilized as a satellite (off-campus) department of the hospital, Mountain States Imaging.

Please refer to the staff summary and the TDH report for more detailed information.

NOTE TO AGENCY MEMBERS: MSHA and Wellmont Health System, located in Bristol, TN, are currently parties to a request to merge the two health systems. This merger is governed by TCA § 68-11-1303— Cooperative agreements—Certificate of public advantage (COPA). A COPA is the written approval by the TDH which governs a Cooperative Agreement among two or more hospitals. The goal of the COPA application process is to protect the interests of the public in the region affected and the State. The application process will allow the applicants to submit information and data about their Cooperative Agreement in sufficient detail to enable the State to determine the benefits/advantages and disadvantages of the Cooperative Agreement. The law requires consultation with and agreement from the Attorney General.

The merger has been approved by the Southwest Virginia Health Authority but still must be approved by the Virginia and Tennessee health commissioners. The TDH has deemed the COPA application complete and has held numerous listening sessions and hearings on the issue.

Wellmont operates six hospitals and numerous outpatient care sites, and serves communities in Northeast Tennessee and Southwest Virginia. It does not operate any MRI scanners in Johnson City.

Executive Director Justification -

I recommend approval for the addition of a 3rd MRI to be located on the main campus of JCMC, CN1610-035, My recommendation for approval is based upon my belief the following general criteria for a Certificate of Need have been met.

- **Need**-The need to add the 3rd MRI is justified because JCMC is a high-acuity, tertiary referral center. The two MRIs on the JCMC campus were operating above the 2,880 threshold at an average of 3,234 per scanner in 2015. The utilization for all scanners in the service area in 2015 was 2,875 per unit which is just under the State Health Plan guideline of 2,880 per unit. As the provider of Level 1 Trauma Center services, Northeast TN Perinatal Center services, Children's Hospital services, and the largest provider of hospital-based TennCare services, JCMC truly is the safety net provider for the region.

- **Economic Feasibility-**The project is economically feasible because it is expected to realize a positive financial margin in Year 1; cash flow is projected to be $285,852 and $286,975, in Years 1 and 2, respectively. According to a 10/12/16 letter from JCMC VP/CFO Richard Boone, it will be funded from cash reserves. MSHA audited consolidated balance sheet ending 6/30/15 revealed cash and cash equivalents of $79,714,000, total current assets of $328,823,000, and current liabilities of $235,593 for a current ratio of 1.4 to 1.0.
- **Health Care that Meets Appropriate Quality Standards-** JCMC is in compliance with all licensing, certifying, and accrediting agencies including the American College of Radiology (ACR). JCMC indicated it is prepared to ensure that it maintains accreditation through ACR for all of its MRI units, including this additional unit.
- **Contribution to the Orderly Development of Health Care-** The project does contribute to the orderly development of health care since the additional MRI scanner will be utilized to reduce extremely long wait times for patients requiring moderate sedation to anesthesia (currently 2-5 weeks). It has existing relationships with Quillen College of Medicine and is a training site for other colleges and universities for nurses, radiology technologists and respiratory therapists. It participates in all TennCare MCOs in the service area.

Statutory Citation -TCA 68-11-1608. Review of applications -- Report

(d) The executive director may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

Rules of the Health Services and Development Agency - 0720-10-.05 CONSENT CALENDAR

(1) Each monthly meeting's agenda will be available for both a consent calendar and a regular calendar.

(2) In order to be placed on the consent calendar, the application must not be opposed by anyone having legal standing to oppose the application, and the executive director must determine that the application appears to meet the established criteria for granting a certificate of need. Public notice of all applications intended to be placed on the consent calendar will be given.

(3) As to all applications which are placed on the consent calendar, the reviewing agency shall file its official report with The Agency within thirty (30) days of the beginning of the applicable review cycle.

(4) If opposition by anyone having legal standing to oppose the application is stated in writing prior to the application being formally considered by The Agency, it will be taken off the consent calendar and placed on the next regular agenda. Any member of The Agency may state opposition to the application being heard on the consent calendar, and if reasonable grounds for such opposition are given, the application will be removed from the consent calendar and placed on the next regular agenda.

(a) For purposes of this rule, the "next regular agenda" means the next regular calendar to be

considered at the same monthly meeting.

(5) Any application which remains on the consent calendar will be individually considered and voted upon by The Agency.

HEALTH SERVICES AND DEVELOPMENT AGENCY
DECEMBER 14, 2016
APPLICATION SUMMARY

NAME OF PROJECT:	Johnson City Medical Center
PROJECT NUMBER:	CN1610-035
ADDRESS:	401 N. State of Franklin Road Johnson City (Washington County), TN 37604
LEGAL OWNER:	Mountain States Health Alliance 401 N. State of Franklin Road Johnson City (Washington County), TN 37604
OPERATING ENTITY:	N/A
CONTACT PERSON:	Tony Benton (423) 431-1084
DATE FILED:	October 14, 2016
PROJECT COST:	$2,023,108
FINANCING:	Cash Reserves
PURPOSE FOR FILING:	Addition of a 1.5 Tesla Magnetic Resonance Unit (MRI)

DESCRIPTION:

Johnson City Medical Center (JCMC) is seeking approval for the addition of a 1.5 Tesla magnetic resonance imaging (MRI) unit on its main campus.

The application has been placed under **CONSENT CALENDAR REVIEW** in accordance with TCA 68-11-1608(d) and Agency Rule 0720-10-.05.

CRITERIA AND STANDARDS REVIEW

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

The applicant is requesting an additional MRI unit. The applicant provided responses to the applicable criteria and standards to initiate MRI services.

It appears that this criterion has been met.

3. For renovation or expansions of an existing licensed health care institution:

a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

The applicant currently operates two MRI units on the main campus that averaged 3,234 procedures per unit in 2015. The optimal utilization standard for MRI units is 2,880 procedures annually.

It appears that this criterion has been met.

b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

The hospital's emergency department (ED) is being renovated and adding space. Existing ED space will be allocated to the proposed project which will be more than made up for in the ED renovation project.

It appears that this criterion has been met.

MAGNETIC RESONANCE IMAGING SERVICES

1. Utilization Standards for non-Specialty MRI Units.

a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

The two existing MRI units on the JCMC main campus averaged 3,234 procedures per unit in 2015. The applicant projects that in the first of operation of the new unit the average scans per unit for the three units will be 2,505.

It appears that the applicant is on track to meet the MRI standard and meet this criterion.

b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

The criteria identified in items 1.b – 1.e above are not applicable to the applicant's proposed project.

1. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications

that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

The defined service area for the proposed project includes Carter, Greene, Sullivan, and Washington Counties. These counties account for nearly 77% of JCMC's MRI patients.

It appears that this criterion has been met.

2. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

The applicant investigated the alternatives of mobile services and sharing arrangements but found neither to be appropriate.

It appears that the applicant will meet this criterion.

3. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per

week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

In 2015 the overall average utilization of non-specialty MRI units in the applicant's primary and secondary service area was equal to 2,875 procedures per unit.

It appears that this criterion has not been met; however it should be pointed out that the average MRI procedures per service area unit in 2015 was 2,875, 25 procedures below the 2,880 standard. With service area MRI procedures increasing on average 4% annually from 2013 to 2015, it's possible that service area MRI units will meet or exceed the 2,880 standard in 2016.

4. Need Standards for Specialty MRI Units.

   This standard does not apply to this application.

5. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units.

   This standard does not apply to this application.

1. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

   a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

   The applicant has provided information in Attachment A-13F that documents the proposed MRI meets FDA certification requirements.

   It appears that this criterion has been met.

   b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

   The applicant ensures that all the requirements listed above will be met.

   It appears that this criterion has been met.

c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

The applicant has protocols in place to appropriately care for emergent patients.

It appears that this criterion has been met.

d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

The applicant has established protocols that ensure all MRI procedures performed are medically necessary and will not unnecessarily duplicate other services.

It appears that this criterion has been met.

e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

All JCMC MRI services are accredited by the American College of Radiology (ACR). The applicant is prepared to meet all ACR standards including those regarding staffing recommendations and requirements.

It appears that this criterion will be met.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

All JCMC MRI services are accredited by the American College of Radiology.

It appears that this criterion has been met.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

Johnson City Medical Center is a hospital which has close working relationships with other MSHA hospitals and has transfer agreements with Wellmont Health System hospitals and Laughlin Memorial Hospital in Greeneville.

It appears that this criterion has been met.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant indicates that appropriate data is currently submitted to the HSDA Equipment Registry and that data for the proposed MRI unit will be submitted accordingly as well.

It appears that this criterion has been met.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration; or

The applicant states that Carter County is medically underserved.

It appears that this criterion has been met.

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Johnson City Medical Center is considered to be both a pediatric general hospital and a "safety net hospital".

It appears that this criterion has been met.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

The applicant contracts with several TennCare MCOs and participates in the Medicare program.

It appears that this criterion has been met.

d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

The applicant provides MRI services that include those that require sedation, including anesthesia. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, orthopedic imaging, high resolution angiography, and abdominal imaging, and total body imaging for oncology studies.

It appears that this criterion has been met.

Staff Summary

The following information is a summary of the original application and all supplemental responses. Any staff comments or notes, if applicable, will be in bold italics as a Note to Agency members.

Application Synopsis

Johnson City Medical Center (JCMC) is proposing the addition of a third MRI unit to its Main Campus. Mountain States Health Alliance (MSHA) also operates an additional MRI unit at Mountain States Imaging at Med Tech Parkway a satellite off site of the main campus's imaging department in Washington County. The MRI services at JCMC include clinical applications that require sedation, including anesthesia. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, orthopedic imaging, high resolution angiography, and abdominal imaging, and total body imaging for oncology studies.

An overview of the project is provided on pages 3-4 of the original application and augmented in the first supplemental response.

Facility and Equipment Information

JCMC is a 585-bed not-for-profit general hospital located in Johnson City in Washington County. JCMC has 501 acute care beds on its main campus, which include 69 bed Niswonger Children's Hospital. Woodridge Hospital is an 84 bed psychiatric facility near the main campus and is a satellite facility of JCMC. Mountain States Imaging at Med Tech Parkway is a satellite imaging center that operates as a department of JCMC.

The Joint Annual Report for 2015 indicates that JCMC is licensed for 501 beds on its main campus and staffed 467 beds. Licensed bed occupancy was 69.8% and staffed bed occupancy was 74.9%.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

- *Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).*
- *Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.*

The identified space for the proposed MRI unit is currently within JCMC's emergency department. The emergency department is currently undergoing a renovation that will add additional space. This additional space will more than make-up for the space being allocated to the MRI unit. The estimated square footage to be renovated is 892.5 square feet at a cost of $212,500.

The MRI equipment is expected to be a new 1.5 Tesla short bore unit that will be purchased by the applicant.

Ownership

- Johnson City Medical Center is the flagship hospital for Mountain States Health Alliance (MSHA).

- MSHA includes thirteen hospitals located in Tennessee, Virginia, Kentucky, and North Carolina; and operates urgent care centers, outpatient facilities, laboratory and radiology services, physician practices, long-term and rehabilitation facilities, and community based prevention and educational activities.

NEED

Project Need

The applicant states that the proposed additional MRI unit is needed for the following reasons:

- The average number of MRI procedures per unit at JCMC including the unit at the satellite imaging center was 3,044 procedures in 2015. The State Health Plan standard for optimal utilization is 2,880 procedures annually.
- The average number of procedures per non-specialty MRI unit for service areas MRI units in 2015 was 2,875, just 25 below the 2,880 standard. The standard will likely be exceeded in 2016.

Service Area Demographics

The counties in the applicant's service area include Carter, Greene, Sullivan, and Washington Counties. Approximately 77% of JCMC's MRI volume was generated from residents residing in these counties.

- The total population of the service area is estimated at 423,406 residents in calendar year (CY) 2016 increasing by approximately 2.4% to 433,685 residents in CY 2020.
- The overall Tennessee statewide population is projected to grow by 4.3% from 2016 to 2020.

- The Age 65+ population of the service area is estimated at 86,415 residents in calendar year (CY) 2016 increasing by approximately 12.8% to 97,469 residents in CY 2020.
- The overall Tennessee statewide Age 65+ population is projected to grow by 16.0% from 2016 to 2020.
- The Age 65+ population is expected to account for 22.5% of the total population in 2020 compared to 17.8% statewide.
- The proportion of TennCare enrollees of the service area population is 21.6%, compared with the state-wide average of 22.8%. The proportions vary from 19.3% in Washington County to 23.8% in Carter County.

Service Area Historical Utilization

***Service Area Historical MRI Utilization, 2013-2015**

Provider	*Type	County	# of MRIs In 2015	2013	2014	2015	% of MRI Standard in 2015 (1)	% Change
Sycamore Shoals Hospital	HOSP	Carter	0.85	1,719	1,880	1,818	74.3%	+5.8%
Medical Care Plus, PLC	PO	Carter	0.15	-	-	126	29.2%	NA
Carter County Sub-Total			**1.0**	**1,719**	**1,880**	**1,944**	**67.5%**	**+13.1%**
Laughlin Memorial Hospital	HOSP	Greene	2	3,159	3,248	3,284	57.0%	+4.0%
Takoma Regional Hospital	HOSP	Greene	1	1,610	2,224	1,880	65.3%	+16.8%
Greene County Sub-Total			**3**	**4,769**	**5,472**	**5,164**	**59.8%**	**+8.3%**
Bristol Regional Medical Center	HOSP	Sullivan	2	6,323	6,151	8,452	146.7%	+33.7%
Holston Valley Imaging Center	HODC	Sullivan	3	8,787	6,516	8,970	103.8%	+2.1%
Holston Valley Medical Center	HOSP	Sullivan	1	3,326	2,867	3,148	109.3%	-5.4%
Indian Path Medical Center	HOSP	Sullivan	1	2,807	2,913	3,173	110.2%	+13.0%
Meadowview ODC	ODC	Sullivan	1	4,350	4,187	4,178	145.1%	-4.0%
Sapling Grove ODC	ODC	Sullivan	1	2,245	2,231	2,158	74.9%	-3.9%
Volunteer Parkway Imaging Cntr.	HODC	Sullivan	1	1,239	1,153	1,413	49.1%	+14.0%
Sullivan County Sub-Total			**10**	**29,077**	**26,018**	**31,492**	**109.3%**	+8.3%
Johnson City Medical Center	HOSP	Washington	2	6,617	6,575	6,467	112.3%	-2.3%
Mountain States Imaging	HODC	Washington	1	2,448	2,328	2,666	92.6%	+8.9%
Franklin Woods Comm. Hospital	HOSP	Washington	1	3,529	3,772	4,432	153.9%	+25.6%
Watauga Orthopedics	PO	Washington	1	2,337	2,221	2,465	85.6%	+5.5%
Washington County Sub-Total			**5**	**14,931**	**14,896**	**16,030**	**111.3%**	**+7.4%**
SERVICE AREA TOTAL			**19**	**50,496**	**48,266**	**54,630**	**99.8%**	**+8.2%**

**HOSP= Hospital, PO = Physician Office, HODC = Imaging Center that is a hospital department, ODC = Outpatient Diagnostic Center*

Source: HSDA Equipment Registry

(1) 3rd Year of service standard of 2,880 MRI procedures per year is applied

Note to Agency members-A physician practice, Appalachian Orthopaedic Associates, received three CONs in 2003-2004 for extremity MRIs in three separate locations. All three projects were implemented. One unit was sold in 2012. The other two units did not

report utilization in 2015. The status of these units is currently unknown. Because of the unknown status of these units, and the fact that they are specialty extremity only units, these units are not included in the inventory in the above chart.

- There are 15 non-specialty MRIs providers in the service area with 19.0 full time equivalent MRIs.
- The chart above indicates that MRI volumes in the service area increased 8.2% between 2013 and 2015. Ten of the providers experienced increased volume during this time period including Mountain States Imaging. Five of the providers experienced declining volumes including Johnson City Medical Center. When reviewing the MRI providers by county, MRI volumes increased overall in each of the counties in the service area.
- Overall, the MRIs in the service area are operating at 99.8% of the MRI volume standard in 2015. Eight of the providers did not attain the 2,880 standard in 2015. Overall, two of the county MRI services did not meet the utilization standard (Carter and Greene), while the other two did meet the utilization standard (Sullivan and Washington).

Applicant's Historical and Projected Utilization

The applicant provides historical and projected MRI utilization as follows:

Variable	2013	2014	2015	2016	Year 1 (2018)	Year 2 (2019)
JCMC MRI Procedures including Mountain States Imaging	9,065	8,903	9,133	9,317	10,365	10,373
JCMC Total MRI Units	3	3	3	3	4	4
Average Utilization/Unit	3,022	2,968	3,044	3,106	2,591	2,593

Source: HSDA Equipment Registry and CN1608-030

ECONOMIC FEASIBILITY

Project Cost

The total project cost is $2,023,108. Of this amount, the major costs are as follows:

- MRI Equipment - $1,755,608 or 86.8% of total cost. This cost includes the MRI purchase price, 1st year warranty, and annual service agreement for Years 2-5.
- Renovation- $212,500 or 10.5% of total cost.
- For other details on Project Cost, see the Project Cost Chart on page 31 of the original application.

Financing

Mountain States Health Alliance will fund the proposed project from existing cash reserves from operations.

- An October 12, 2016 letter from Richard Boone, Vice President/CFO, Johnson City Medical Center, is provided in the application that certifies that JCMC has sufficient cash to fund the project.
- Review of Mountain States Health Alliance audited consolidated balance sheet ending June 30, 2015 revealed cash and cash equivalents of $79,714,000 total current assets of $328,823,000 and current liabilities of $235,593,000 for a current ratio of 1.40 to 1.0.

Note to Agency Members: Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities, which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Historical Data Chart

JCMC provided a historical data chart for MRI services and JCMC in total. Some of the highlights are as follows:

MRI Services

- MRI services have reported net incomes in each of the past three fiscal years.
- Net operating income was $637,719 in FY2014, $1,600,089 in FY 2015, and $1,901,116 in FY2016. Net operating margin was 40.3% in FY2014, 42.9% in FY 2015, and 47.1% in FY2016.

Total Hospital

- JCMC reported net incomes in each of the past three fiscal years.
- Net operating income $29,995,815 in FY2014, $60,004,703 in FY 2015, and $50,311,956 in FY2016. Net operating margin was 16.3% in FY2014, 22.6% in FY 2015, and 20.4% in FY2016.

Projected Data Chart

JCMC provided a projected data chart for MRI services and JCMC in total. Some of the highlights are as follows:

MRI Services

- Based on 10,365 procedures in FY2018, estimated gross operating revenue is $42,112,529. In FY2019 based on 10,373 MRI procedures, gross operating revenue is expected to increase to $42,972,091.
- Net operating revenue in FY2018 and FY2019 is expected to be approximately 13.3% of gross operating revenue.

- Net operating income of $2,074,970 is projected for FY2018 and is expected to increase in FY2019 to $2,116,902. Net operating margins are projected to be approximately 63% in FY2018 and FY2019.
- The applicant expects to serve approximately 112 charity care patients in Year 1 and Year 2.

Total Hospital

- JCMC projects net incomes in each of the first two years after project completion.
- Net operating income projected for FY2018 is $55,768,000 and $57,837,000 for FY2019. Net operating margins are projected to be 21.1% in FY2018 and FY2019.

Charges

- The applicant projects an average gross charge of $4,554 in FY2018 and $4,594 in FY2019. The average deduction from gross revenue is projected to be $4,126 in FY2018 and $4,164 in FY2019, resulting in a net charge of $428 and $430, respectively.
- According to the HSDA Equipment Registry, the average gross charge for JCMC MRI services was $4,639 in 2015. This amount is above the third quartile of $3,939.52 of MRI charges in Tennessee.

Medicare/TennCare Payor Mix

- The applicant participates in Medicare, TennCare, and Medicaid programs. The applicant contracts with the following TennCare MCOs: AmeriGroup, BlueCare, United Healthcare Community Plan, and TennCare Select.

The applicant's projected payor mix for Year 1 (FY2018) is as follows:

Payor Source	Gross Revenue	% Gross Revenue
Medicare/Medicare Managed Care	$1,847,024	38.7%
TennCare/Medicaid	$959,307	20.1%
Commercial/Other Managed Care	$1,589,300	33.3%
Charity/Self-Pay	$157,498	3.3%
Other	$219,543	4.6%
TOTAL	$4,772,673	100.0%

- TennCare/Medicaid-2018 projected revenue is $959,307 representing 20.1% of total revenue in Year 1.
- Medicare-The applicant expects $1,847,024 in Medicare revenue representing 38.7% of total gross revenue in Year 1.

- Managed Care/Commercial combined is projected to total $1,589,300 or 33.3% of total revenue.

PROVIDE HEALTHCARE THAT MEETS APPROPRIATE QUALITY STANDARDS

Licensure

- JCMC is licensed by the Tennessee Department of Health.

Certification

- JCMC has Medicare and TennCare/Medicaid certification.

Accreditation

- JCMC is accredited by the Joint Commission and its MRI services are accredited by the American College of Radiology.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE

Agreements

JCMC works closely with other healthcare providers in the service area including other MSHA hospitals, East Tennessee State University and the James H. Quillen College of Medicine, local nursing homes, clinics, and other healthcare providers. MSHA has existing transfer agreements with other area hospitals including Wellmont Health System hospitals and Laughlin Memorial Hospital in Greeneville.

Impact on Existing Providers

The applicant states that the proposed project is to address needed additional MRI capacity for existing patient populations and does not expect the proposed project to have any negative impact on other MRI providers.

Staffing

The applicant proposes the addition of 1.0 FTE MRI technologist to the existing MRI technologist staff of 7.9 FTE.

Corporate documentation, deed, and MRI purchase quote, and FDA documentation are on file at the Agency office and will be available at the Agency meeting.

Should the Agency vote to approve this project, the CON would expire in three years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:

There are no other Letters of Intent, pending applications, denied applications, or outstanding Certificates of Need for this applicant.

Mountain States Health Alliance has a financial interest in this project and the following:

Pending Applications

Unicoi County Memorial Hospital, CN1608-030, has a pending application that will be heard at the December 14, 2016 Agency meeting for the relocation and replacement of Unicoi Memorial Hospital with a 41,500 square foot 10-bed acute care facility with a 10 bed treatment room emergency department. The estimated project cost is **$19,999,141.**

LP Johnson City, LLC, 1609-032, has a pending application that will be heard at the December 14, 2016 Agency meeting for the replacement of 34 bed Princeton Transitional Care and 13 bed Franklin Transitional Care with a new 47 bed nursing home to be located on the campus of what was formerly Northside Hospital. The estimated project cost is **$8,571,736.**

Outstanding Certificates of Need

East Tennessee Healthcare Holdings, Inc., CN1605-021A has an outstanding Certificate of Need that will expire on October 1, 2018. The project was approved at the August 24, 2016 Agency meeting for the establishment of a nonresidential substitution-based treatment center that provides opiate addiction treatment. Mountain States Health Alliance (MSHA) and East Tennessee State University (ETSU) have formed the not-for-profit Corporation ETHHI to be licensed by the Department of Mental Health and Substance Abuse Services (TDMHSAS). The estimated project cost is **$1,747,777**. *Project Status: This project was recently approved.*

CERTIFICATE OF NEED INFORMATION FOR OTHER FACILITIES IN THE SERVICE AREA:

There are no Letters of Intent, denied applications, or pending applications for other health care organizations in the service area proposing this type of service.

Outstanding Certificates of Need

Medical Care, PLLC, CN1508-018A, has an outstanding Certificate of Need which will expire on October 1, 2017. The project was approved at the August 26, 2015 Agency meeting to initiate magnetic resonance imaging services by sharing existing MRI equipment located at Sycamore Shoals Hospital. The estimated project cost is **$1,609,162.71.** *Project Status Update: The last Annual Progress Report was received on 9/8/2016 which reported the project was implemented on 9/11/2015. A request for their Final Project Report has been made.*

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, HEALTH CARE THAT MEETS APPROPRIATE QUALITY STANDARDS, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF
11/18/16

LETTER OF INTENT

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Johnson City Press (Name of Newspaper) which is a newspaper of general circulation in Washington (County), Tennessee, on or before October 10th (Month / day), 2016 (Year), for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Johnson City Medical Center (Name of Applicant) a hospital (Facility Type-Existing)

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to its main campus located at 400 N. State of Franklin Road, Johnson City, TN 37604. This project will not involve any other service for which a certificate of need is required. The estimated project cost is $2,023,108.

The anticipated date of filing the application is: October 14th, 2016

The contact person for this project is Tony Benton (Contact Name) VP, COO (Title)

who may be reached at: Mountain States Health Alliance (Company Name) 400 N. State of Franklin Road (Address)

Johnson City (City)	TN (State)	37604 (Zip Code)	423/431-1084 (Area Code / Phone Number)
(Signature)		10/7/2016 (Date)	BentonGT@msha.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

COPY

Johnson City Medical Center

CN1610-035

Mountain States Health Alliance

Johnson City Medical Center MRI Project

Certificate of Need Application
October 14, 2016

Prepared for:
Tennessee Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street Nashville, TN 37243
615.741.2364

Contact:
Tony Benton
423.431.1084

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

CERTIFICATE OF NEED APPLICATION

SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency, or Institution

Johnson City Medical Center
Name

400 N. State of Franklin Road — Washington
Street or Route — County

Johnson City — TN — 37604
City — State — Zip Code

Website address: www.mountainstateshealth.com

*Note: The facility's name and address **must be** the name and address of the project and **must be** consistent with the Publication of Intent.*

2. Contact Person Available for Responses to Questions

Tony Benton — VP, COO
Name — Title

Mountain States Health Alliance — BentonGT@msha.com
Company Name — Email address

400 N. State of Franklin Road — Johnson City — TN — 37604
Street or Route — City — State — Zip Code

Employee — 423-431-1084 — 423-431-1037
Association with Owner — Phone Number — Fax Number

NOTE: ***Section A*** is intended to give the applicant an opportunity to describe the project. ***Section B*** addresses how the project relates to the criteria for a Certificate of Need by addressing: Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care.

Please answer all questions on ***8½" X 11" white paper, clearly typed and spaced, single or double-sided, in order and sequentially numbered. In answering, please type the question and the response.*** All questions must be answered. If an item does not apply, please indicate *"N/A" (not applicable).* ***Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment, i.e., Attachment A.1, A.2, etc. The last page of the application should be a completed signed and notarized affidavit.***

3. SECTION A: EXECUTIVE SUMMARY

A. Overview

Please provide an overview not to exceed three pages in total explaining each numbered point.

1) Description – Address the establishment of a health care institution, initiation of health services, bed complement changes, and/or how this project relates to any other outstanding but unimplemented certificates of need held by the applicant;

Response:
This project proposes the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to the main campus of Johnson City Medical Center located at 400 N. State of Franklin Road, Johnson City, TN 37604. The MRI services as part of this project will be provided for inpatients, outpatients, and patients requiring emergency services. The clinical applications include MRI procedures requiring sedation, including anesthesia, for both adults and pediatric patients. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, orthopedic imaging, high resolution angiography and abdominal imaging, and total body imaging utilized for oncology studies.

2) Ownership structure;

Response:
Johnson City Medical Center (JCMC) is a 632-bed not-for-profit general hospital located in Johnson City (Washington County), Tennessee and serves as the flagship hospital for Mountain States Health Alliance. JCMC is licensed for 501 acute care beds on its main hospital campus, which includes 69 beds that make up Niswonger Children's Hospital. In addition, Woodridge Hospital, an 84-bed psychiatric facility located near JCMC's main campus, is a satellite facility of Johnson City Medical Center. Mountain States Imaging at Med Tech Parkway is an outpatient diagnostic center that operates as a department of JCMC.

Mountain States Health Alliance (MSHA) is a large, integrated, not-for-profit health care system based in Johnson City, Tennessee. Founded in 1998, MSHA has historical community roots in the Johnson City Medical Center (JCMC) (1980-Present), Memorial Hospital (1951-1980), and Appalachian Hospital (1911-1951). The hospital system includes thirteen hospitals providing a core of acute care, hospital-based services, and an array of supporting services. In addition, MSHA operates urgent care centers, outpatient facilities, laboratory and radiology services, physician practices, long-term care and rehabilitation facilities, and community-based prevention and educational activities to a population of over 1.1 million residents of southern and central Appalachia.

3) Service area;

Response:
Johnson City Medical Center is a regional tertiary referral center that provides high acuity services, and as such, JCMC receives patients from across the entire MSHA service area. However, the majority of JCMC's MRI volume comes from the following counties: Washington, Carter, Sullivan, and Greene County, all of which are in Tennessee. The service area for this project will be defined as those four counties because patients from those counties made up 77% of JCMC's total MRI volume for fiscal year 2016.

4) Existing similar service providers;

Response:
Johnson City Medical Center currently operates 2 fixed unit MRI scanners at its main campus, as well as 1 fixed unit MRI scanner offsite at Mountain States Imaging at Med Tech Park, an outpatient diagnostic center located at 301 Med Tech Parkway, Johnson City, TN 37604.

A total of 19 non-specialty MRI units are in operation across the proposed project service area, 3 of which are operated by JCMC. Other existing MRI services in the proposed project service area include:

Washington County, TN
Franklin Woods Community Hospital – 1 fixed unit
Watauga Orthopaedics – 1 fixed unit

Carter County, TN
Sycamore Shoals Hospital (shared with Medical Care, PLLC) – 1 fixed unit

Sullivan County, TN
Bristol Regional Medical Center – 2 fixed units
Holston Valley Imaging Center, LLC – 3 fixed units
Holston Valley Medical Center – 1 fixed unit
Indian Path Medical Center – 1 fixed unit
Meadowview Outpatient Diagnostic Center – 1 fixed unit
Sapling Grove Outpatient Diagnostic Center – 1 fixed unit
Volunteer Parkway Imaging Center – 1 fixed unit

Greene County, TN
Laughlin Memorial Hospital, Inc. – 2 fixed units
Takoma Regional Hospital – 1 fixed unit

5) Project cost;

Response:
The estimated cost for this project is $2,023,108.

6) Funding;

Response:
Funding for this project will be through the use of existing cash reserves of MSHA.

7) Financial Feasibility including when the proposal will realize a positive financial margin; and

Response:
This project is expected to realize a positive financial margin in Year 1; cash flow is projected to be $285,852 and $286,975 in Years 1 and 2, respectively.

8) Staffing.

Response:
Currently, 7.9 MRI technologists (full-time equivalent) are utilized at Johnson City Medical Center to maintain MRI operations. One additional MRI tech FTE is expected to be added in Year 1 as a result of this project, bringing the total to 8.9 FTEs overall.

B. Rationale for Approval

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) Need;

Response:
The State Health Plan criterion to justify additional MRI capacity is 2,880 scans per MRI unit. The average number of procedures per JCMC MRI unit, including the unit at Mountain States Imaging at Med Tech Parkway, was 3,044 in 2015. The 2 units on JCMC's main campus averaged 3,234 procedures per unit in 2015. HSDA Medical Equipment Registry data from 2015 demonstrates that the average number of procedures per MRI unit in the service area was 2,875 procedures per unit, which was just under the standard of 2,880 procedures per unit, and the standard will likely be exceeded in 2016.

2) Economic Feasibility;

Response:
The purchase of a new fixed-site 1.5T MRI unit is believed to be the most cost-effective approach for this project. The project will be funded from existing cash reserves from operations at Mountain States Health Alliance. Based on an anticipated increase in MRI procedures as part of this project, the incremental cash flow is projected to be $285,852 in Year 1 and $286,975 in Year 2.

3) Appropriate Quality Standards; and

Response:
Johnson City Medical Center is committed to ensuring high-quality care for its MRI patients of all ages in all patient care settings. It is an expectation that the additional MRI services proposed in this project will meet the same clinical and quality standards as demonstrated in JCMC's current MRI services. JCMC's MRI services, including those at its Outpatient Diagnostic Center, are accredited through the American College of Radiology. As part of this project, JCMC is prepared to ensure that it maintains accreditation through the ACR for all of its MRI units, including the additional unit proposed in this application.

4) Orderly Development to adequate and effective health care.

Response:
The addition of a 1.5T MRI Unit at Johnson City Medical Center will have no negative impact on other local healthcare providers, while also improving the experience of patients and more effectively meeting demand for MRI services by adding capacity and reducing lengthy wait times currently being experienced. This additional capacity will provide better access to MRI services for the patients of the service area, particularly those seeking the highly complex procedures offered at JCMC.

C. Consent Calendar Justification

If Consent Calendar is requested, please provide the rationale for an expedited review.

A request for Consent Calendar must be in the form of a written communication to the Agency's Executive Director at the time the application is filed.

Response:

A letter addressed to the Agency's Executive Director has been included with this application entailing Mountain States Health Alliance's request for Consent Calendar and the rationale for an expedited review of this project.

MOUNTAIN STATES HEALTH ALLIANCE

400 N. State of Franklin Road • Johnson City, TN 37604
423-431-6111

October 13, 2016

Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Johnson City Medical Center, Application to Add an MRI

Dear Ms. Hill:

Enclosed with this letter are the original and two (2) copies of the certificate of need application by Johnson City Medical Center ("JCMC") referenced above. For the reasons outlined below, we respectfully request that the enclosed application be considered for placement on the consent agenda.

We believe this application qualifies for consent calendar treatment based on the following:

- The three (3) MRI units operated as part of JCMC, including the one unit at its outpatient imaging facility, are heavily utilized. In 2015, the average utilization for all 3 units was 3,044 per scanner. The 2 MRI units at the main campus averaged 3,234 per scanner in 2015. JCMC's volume, along with the complexity of procedures performed, necessitates additional capacity to meet patient demands.
- The utilization of all MRIs in the service area for 2015 was 2,875 procedures per unit, which is narrowly under the State Health Plan criteria of 2,880 per unit.
- The State Health Plan authorizes special consideration to applicant's that are "safety- net" providers or that demonstrate a commitment to serve TennCare patients. JCMC, as a Level 1 Trauma Center and the perinatal center for northeast Tennessee, is clearly a "safety-net" provider. In addition, JCMC has been committed to the TennCare program since its inception, and it is in all of the TennCare networks that serve the area. JCMC is the largest provider of hospital-based TennCare services in the region.

In addition to the above points, we note the plans by JCMC to acquire the MRI in question were well under way before the law changed effective July 1, 2016. A budget request was submitted internally in February of 2016. Meetings with user groups and vendors occurred in March and April. Executive and Board approvals to acquire the unit were obtained in May, and a contract with the vendor was executed in June. If the approval process within Mountain States Health Alliance had proceeded more expeditiously, the acquisition would have been completed prior to July 1, 2016, and a certificate of need would not have been required.

We appreciate your consideration of this request and the enclosed application.

Very truly yours,

Tony Benton
Vice President, COO Johnson City Medical Center

4. SECTION A: PROJECT DETAILS

A. ***Owner of the Facility, Agency or Institution***

Mountain States Health Alliance		423-461-6111
Name		Phone Number
400 N. State of Franklin Road		Washington
Street or Route		County
Johnson City	TN	37604
City	State	Zip Code

B. ***Type of Ownership of Control (Check One)***

A.	Sole Proprietorship		F.	Government (State of TN or Political Subdivision)	
B.	Partnership		G.	Joint Venture	
C.	Limited Partnership		H.	Limited Liability Company	
D.	Corporation (For Profit)		I.	Other (Specify)_____	
E.	Corporation (Not-for-Profit)	X			

Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence. Please provide documentation of the active status of the entity from the Tennessee Secretary of State's web-site at https://tnbear.tn.gov/ECommerce/FilingSearch.aspx. **Attachment Section A-4A.**

Response: Corporate Charter, Certificate of Corporate Existence, and Business Entity Detail (per Secretary of State's website) are included in attachments.

Describe *the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% ownership (direct or indirect) interest.*

Response: Organizational Chart for Mountain States Health Alliance is included in attachments.

5. *Name of Management/Operating Entity (If Applicable)*

N/A		
Name		
Street or Route		County
City	State	Zip Code

Website address: _____

For new facilities or existing facilities *without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract.* **Attachment Section A-5**.

Response: Not applicable.

6A. ***Legal Interest in the Site of the Institution*** ***(Check One)***

A.	Ownership	X	D.	Option to Lease	
B.	Option to Purchase		E.	Other (Specify)	
C.	Lease of _____ Years				

Check appropriate line above: *For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements* ***must include*** *anticipated purchase price. Lease/Option to Lease Agreements* ***must include*** *the actual/anticipated term of the agreement* ***and*** *actual/anticipated lease expense. The legal interests described herein* ***must be valid*** on the date of the Agency's consideration of the certificate of need application.

Response: The title/deed is included in attachments.

6B. Attach **a copy of the site's plot plan, floor plan, and if applicable, public transportation route to and from the site** on an 8 1/2" x 11" sheet of white paper, single or double-sided. ***DO NOT SUBMIT BLUEPRINTS***. Simple line drawings should be submitted and need not be drawn to scale.

1) Plot Plan **must include**:

a. Size of site (***in acres***);

b. Location of structure on the site;

c. Location of the proposed construction/renovation; and

d. Names of streets, roads or highway that cross or border the site.

Response:
Plot plans for the Johnson City Medical Center campus and for the proposed MRI space within the facility are attached.

2) Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. On an 8 ½ by 11 sheet of paper or as many as necessary to illustrate the floor plan.

Response:
Floor plans for the proposed MRI space are attached.

3) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: Johnson City Medical Center is located at 400. N. State of Franklin Road (State 321) in Johnson City, Tennessee. JCMC is at the intersection N. State of Franklin Road and Highway 11E and is accessible from either direction on each of these roadways. JCMC is also approximately 3 miles from Interstate 26. Johnson City Medical Center is a stop on the Johnson City Transit Public Transportation service. The proposed site is accessible through multiple access points for ambulatory patients, patients transferred into the facility, and for emergent patients. JCMC utilizes ground ambulance transport, as well a helicopter service, for emergent and inter-facility transfers, including transport of neonatal and pediatric patients.

Attachment Section A-6A, 6B-1 a-d, 6B-2, 6B-3.

7. ***Type of Institution*** ***(Check as appropriate--more than one response may apply)***

A.	Hospital (Specify) Acute	X	H	Nursing Home	
B.	Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty		I.	Outpatient Diagnostic Center	
C.	ASTC, Single Specialty		J.	Rehabilitation Facility	
D.	Home Health Agency		K.	Residential Hospice	
E.	Hospice		L.	Nonresidential Substitution-Based Treatment Center for Opiate Addiction	
F.	Mental Health Hospital				
G.	Intellectual Disability Institutional Habilitation Facility ICF/IID		M.	Other (Specify)	

Check appropriate lines(s).

8. **Purpose of Review** ***(Check appropriate lines(s) – more than one response may apply)***

A.	New Institution		F.	Change in Bed Complement [*Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation]*	
B.	Modifying an ASTC with limitation still required per CON				
C.	Addition of MRI Unit	X			
D.	Pediatric MRI		G.	Satellite Emergency Dept.	
E.	Initiation of Health Care Service as defined in T.C.A. §68-11-1607(4) (Specify)		H.	Change of Location	
			I.	Other (Specify)	

9. **Medicaid/TennCare, Medicare Participation**

MCO Contracts [Check all that apply]

X AmeriGroup **X** United Healthcare Community Plan **X** BlueCare **X** TennCare Select

Medicare Provider Number 440063

Medicaid Provider Number 0440063

Certification Type General Acute Care Hospital

If a new facility, will certification be sought for Medicare and/or Medicaid/TennCare?

Medicare __Yes __No X N/A Medicaid/TennCare __Yes __No X N/A

10. Bed Complement Data

A. Please indicate current and proposed distribution and certification of facility beds.

	Current Licensed	Beds Staffed	Beds Proposed	*Beds Approved	**Beds Exempted	TOTAL Beds at Completion
1) Medical	361					361
2) Surgical						
3) ICU/CCU	60					60
4) Obstetrical	21					21
5) NICU	39					39
6) Pediatric	20					20
7) Adult Psychiatric (Woodridge Psychiatric Hospital)	58					58
8) Geriatric Psychiatric (Woodridge Psychiatric Hospital)	14					14
9) Child/Adolescent Psychiatric (Woodridge Psychiatric Hospital)	12					12
10) Rehabilitation						
11) Adult Chemical Dependency						
12) Child/Adolescent Chemical Dependency						
13) Long-Term Care Hospital						
14) Swing Beds						
15) Nursing Home – SNF (Medicare only)						
16) Nursing Home – NF (Medicaid only)						
17) Nursing Home – SNF/NF (dually certified Medicare/Medicaid)	47					47
18) Nursing Home – Licensed (non-certified)						
19) ICF/IID						
20) Residential Hospice						
TOTAL	**632**					**632**

**Beds approved but not yet in service* ***Beds exempted under 10% per 3 year provision*

B. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the applicant facility's existing services. **Attachment Section A-10.**

Response: Not applicable.

C. Please identify all the applicant's outstanding Certificate of Need projects that have a licensed bed change component. If applicable, complete chart below.

CON Number(s)	CON Expiration Date	Total Licensed Beds Approved

Response: Not applicable. Johnson City Medical Center currently has no outstanding CON projects that have a licensed bed change component.

11. **Home Health Care Organizations** – Home Health Agency, Hospice Agency (excluding Residential Hospice), identify the following by checking all that apply:

Response: Not applicable.

	Existing Licensed County	Parent Office County	Proposed Licensed County		Existing Licensed County	Parent Office County	Proposed Licensed County
Anderson	☐	☐	☐	Lauderdale	☐	☐	☐
Bedford	☐	☐	☐	Lawrence	☐	☐	☐
Benton	☐	☐	☐	Lewis	☐	☐	☐
Bledsoe	☐	☐	☐	Lincoln	☐	☐	☐
Blount	☐	☐	☐	Loudon	☐	☐	☐
Bradley	☐	☐	☐	McMinn	☐	☐	☐
Campbell	☐	☐	☐	McNairy	☐	☐	☐
Cannon	☐	☐	☐	Macon	☐	☐	☐
Carroll	☐	☐	☐	Madison	☐	☐	☐
Carter	☐	☐	☐	Marion	☐	☐	☐
Cheatham	☐	☐	☐	Marshall	☐	☐	☐
Chester	☐	☐	☐	Maury	☐	☐	☐
Claiborne	☐	☐	☐	Meigs	☐	☐	☐
Clay	☐	☐	☐	Monroe	☐	☐	☐
Cocke	☐	☐	☐	Montgomery	☐	☐	☐
Coffee	☐	☐	☐	Moore	☐	☐	☐
Crockett	☐	☐	☐	Morgan	☐	☐	☐
Cumberland	☐	☐	☐	Obion	☐	☐	☐
Davidson	☐	☐	☐	Overton	☐	☐	☐
Decatur	☐	☐	☐	Perry	☐	☐	☐
DeKalb	☐	☐	☐	Pickett	☐	☐	☐
Dickson	☐	☐	☐	Polk	☐	☐	☐
Dyer	☐	☐	☐	Putnam	☐	☐	☐
Fayette	☐	☐	☐	Rhea	☐	☐	☐
Fentress	☐	☐	☐	Roane	☐	☐	☐
Franklin	☐	☐	☐	Robertson	☐	☐	☐
Gibson	☐	☐	☐	Rutherford	☐	☐	☐
Giles	☐	☐	☐	Scott	☐	☐	☐
Grainger	☐	☐	☐	Sequatchie	☐	☐	☐
Greene	☐	☐	☐	Sevier	☐	☐	☐
Grundy	☐	☐	☐	Shelby	☐	☐	☐
Hamblen	☐	☐	☐	Smith	☐	☐	☐
Hamilton	☐	☐	☐	Stewart	☐	☐	☐
Hancock	☐	☐	☐	Sullivan	☐	☐	☐
Hardeman	☐	☐	☐	Sumner	☐	☐	☐
Hardin	☐	☐	☐	Tipton	☐	☐	☐
Hawkins	☐	☐	☐	Trousdale	☐	☐	☐
Haywood	☐	☐	☐	Unicoi	☐	☐	☐
Henderson	☐	☐	☐	Union	☐	☐	☐
Henry	☐	☐	☐	Van Buren	☐	☐	☐
Hickman	☐	☐	☐	Warren	☐	☐	☐
Houston	☐	☐	☐	Washington	☐	☐	☐
Humphreys	☐	☐	☐	Wayne	☐	☐	☐
Jackson	☐	☐	☐	Weakley	☐	☐	☐
Jefferson	☐	☐	☐	White	☐	☐	☐
Johnson	☐	☐	☐	Williamson	☐	☐	☐
Knox	☐	☐	☐	Wilson	☐	☐	☐
Lake	☐	☐	☐				

12. Square Footage and Cost Per Square Footage Chart

Unit/Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage		
					Renovated	New	Total
MRI Procedure Room		500.5		500.5	500.5		500.5
MRI Equipment Room		144.5		144.5	144.5		144.5
MRI Control Area		247.5		247.5	247.5		247.5
Unit/Department GSF Sub-Total		892.5		892.5	892.5		892.5
Other GSF Total							
Total GSF		892.5		892.5	892.5		892.5
*Total Cost					$212,500.00		$212,500.00
**Cost Per Square Foot					$238.10		$238.10
Cost per Square Foot Is Within Which Range *(For quartile ranges, please refer to the Applicant's Toolbox on www.tn.gov/hsda)*					☐ Below 1st Quartile ☐ Between 1st and 2nd Quartile ☒ Between 2nd and 3rd Quartile ☐ Above 3rd Quartile	☐ Below 1st Quartile ☐ Between 1st and 2nd Quartile ☐ Between 2nd and 3rd Quartile ☐ Above 3rd Quartile	☐ Below 1st Quartile ☒ Between 1st and 2nd Quartile ☐ Between 2nd and 3rd Quartile ☐ Above 3rd Quartile

* The Total Construction Cost should equal the Construction Cost reported on line A5 of the Project Cost Chart.

** Cost per Square Foot is the construction cost divided by the square feet. Please do not include contingency costs.

13. MRI, PET, and/or Linear Accelerator

1. Describe the acquisition of any Magnetic Resonance Imaging (MRI) scanner that is adding a MRI scanner in counties with population less than 250,000 or initiation of pediatric MRI in counties with population greater than 250,000 and/or
2. Describe the acquisition of any Positron Emission Tomographer (PET) or Linear Accelerator if initiating the service by responding to the following:

Response: Not applicable for PET or Linear Accelerator.

A. Complete the chart below for acquired equipment.

☐ Linear Accelerator	Mev _____ Types:	☐ SRS ☐ IMRT ☐ IGRT ☐ Other _____	
	Total Cost*: _____	☐ By Purchase ☐ By Lease	Expected Useful Life (yrs) ____
	☐ New ☐ Refurbished	☐ If not new, how old? (yrs) _____	
X MRI	Tesla: 1.5 Magnet:	☐ Breast ☐ Extremity ☐ Open ☒ Short Bore ☐ Other _____	
	Total Cost*: $1,755,608	☒ By Purchase ☐ By Lease	Expected Useful Life(yrs) 10
	☒ New ☐ Refurbished	☐ If not new, how old? (yrs) _____	
*Please note that total cost includes MRI scanner purchase of $1,300,000; 1st year warranty of $9,000; and annual service agreement charges of $111,652 for years 2 through 5.			
☐ PET	☐ PET only ☐ PET/CT ☐ PET/MRI		
	Total Cost*: _____	☐ By Purchase ☐ By Lease	Expected Useful Life (yrs) ____
	☐ New ☐ Refurbished	☐ If not new, how old? (yrs) _____	

* As defined by Agency Rule 0720-9-.01(13)

B. In the case of equipment purchase, include a quote and/or proposal from an equipment vendor. In the case of equipment lease, provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments along with the fair market value of the equipment.

Response:
The quote for the MRI equipment associated with this project is included in attachments.

C. Compare lease cost of the equipment to its fair market value. Note: Per Agency Rule, the higher cost must be identified in the project cost chart.

Response:
Not applicable. JCMC will not be leasing the equipment associated with this project.

D. Schedule of Operations:

Location	Days of Operation (*Sunday through Saturday*)	Hours of Operation (*example: 8 am – 3 pm*)

Fixed Site *(Applicant)*	Monday through Friday	8am – 5pm
Mobile Locations *(Applicant)*	n/a	n/a

E. Identify the clinical applications to be provided that apply to the project.

Response:
The MRI services as part of this project will be provided for inpatients, outpatients, and patients requiring emergency services. The clinical applications include MRI procedures requiring sedation, including anesthesia, for both adults and pediatric patients. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, orthopedic imaging, high resolution angiography and abdominal imaging, and total body imaging utilized for oncology studies.

F. If the equipment has been approved by the FDA within the last five years provide documentation of the same.

Response:
Correspondence between Siemens Healthcare and the FDA regarding the equipment associated with this project is included in attachments.

SECTION B: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with T.C.A. § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of health care." Further standards for guidance are provided in the State Health Plan developed pursuant to T.C.A. § 68-11-1625.

The following questions are listed according to the four criteria: (1) Need, (2) Economic Feasibility, (3) Applicable Quality Standards, and (4) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on an 8 1/2" x 11" white paper, single-sided or double sided*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer, unless specified otherwise. ***If a question does not apply to your project, indicate "Not Applicable (NA)."***

QUESTIONS

NEED

1. Provide a response to each criterion and standard in Certificate of Need Categories in the State Health Plan that are applicable to the proposed project. Criteria and standards can be obtained from the Tennessee Health Services and Development Agency or found on the Agency's website at http://www.tn.gov/hsda/article/hsda-criteria-and-standards.

   Standards and Criteria for Magnetic Resonance Imaging (MRI)

   1. Utilization Standards for non-Specialty MRI Units.
      a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

         Response:
         The two existing MRI units at JCMC's main campus provided 6,467 scans in 2015, or an average of 3,234 per unit. The addition of a third MRI on the main campus will result in volume being distributed over the three units. With the additional 1,048 inpatient and outpatient procedures JCMC anticipates in Year 1, these three units will average 2,505 scans per unit.

      b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

         Response:

Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

Response:
Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

d. Mobile MRI units shall not be subject to the need standard in paragraph 1b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

Response:
Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with other medical equipment such as megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

Response:
Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

Response:
The defined service area for this project includes: Washington, Carter, Sullivan, and Greene Counties, all of which are in Tennessee. Patients from these counties accounted for nearly 77% of JCMC's MRI patient population in fiscal year 2016 (see table below). Residents of each county and local ambulance services in the project service area can access JCMC easily. JCMC is accessible via multiple major roadways, such as Highway 11E and State of Franklin Road; JCMC is also conveniently located near Interstate 26.

Service Area Counties	Historical Utilization-County Residents (FY2016)	% of total procedures
Washington	4,486	48.2%
Carter	1,064	11.4%
Sullivan	958	10.3%
Greene	654	7.0%
All Other	2,155	23.1%
Total	9,317	100%

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

Response:
Alternatives to the purchase of a new 1.5T MRI scanner were considered as described in more detail in Question 9 of the Economic Feasibility section. Construction for this proposed project is limited to renovation of existing space, and the purchase of a new scanner is appropriate considering the age and extensive use of the existing JCMC MRI scanners. Maintaining the status quo provides no means of providing more available MRI services to the patient population. Sharing arrangements would not be appropriate in this situation given the difficulty and expense of transferring inpatients to an outside MRI facility. Also, sharing arrangements in the form of mobile MRI service were also deemed inappropriate given the expense, inefficiency, and clinical concerns associated with providing MRI services in a mobile setting at Johnson City Medical Center.

4. Need Standard for non-Specialty MRI Units. A need likely exists for one additional non-Specialty MRI Unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50

50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

Response:
Within the proposed project service area, there are currently 19 non-specialty MRI units. Utilization of the units in the service area reached 2,875 procedures per unit in 2015, which is just under the standard of 2,880 procedures as defined in the State Health Plan Standards and Criteria for MRI. However, the two units at JCMC's main campus are heavily utilized for complex MRI procedures and are well above the standard of 2,880 per unit.

Utilization of the service area's existing MRI units is summarized in the following table:

			# MRI Units			Procedures		
County	Type	Facility	2013	2014	2015	2013	2014	2015
Washington	HOSP	Johnson City Medical Center	2	2	2	6,617	6,575	6,467
	ODC	Mountain States Imaging at Med Tech Parkway	1	1	1	2,448	2,328	2,666
	HOSP	Franklin Woods Community Hospital	1	1	1	3,529	3,772	4,432
	PO	Watauga Orthopaedics, PLC	1	1	1	2,337	2,221	2,465
Carter	HOSP	Sycamore Shoals Hospital[1]	1	1	0.85	1,719	1,880	1,818
	PO	Medical Care, PLLC[1]	-	-	0.15	-	-	126
Sullivan	HOSP	Bristol Regional Medical Center	2	2	2	6,323	6,151	8,452
	HODC	Holston Valley Imaging Center, LLC	3	3	3	8,787	6,516	8,970
	HOSP	Holston Valley Medical Center	1	1	1	3,326	2,867	3,148
	HOSP	Indian Path Medical Center	1	1	1	2,807	2,913	3,173
	ODC	Meadowview Outpatient Diagnostic Center	1	1	1	4,350	4,187	4,178
	ODC	Sapling Grove Outpatient Diagnostic Center	1	1	1	2,245	2,231	2,158
	HODC	Volunteer Parkway Imaging Center	1	1	1	1,239	1,153	1,413
Greene	HOSP	Laughlin Memorial Hospital, Inc.	2	2	2	3,159	3,248	3,284
	HOSP	Takoma Regional Hospital	1	1	1	1,610	2,224	1,880
		Service Area Total	19	19	19	50,496	48,266	54,630
		Historical Procedures per MRI				2,658	2,540	2,875

Source: Health Services and Development Agency Medical Equipment Registry Statistics

1) Medical Care, PLLC began utilizing Sycamore Shoals Hospital's MRI unit in 2015, under contract, 3 half-days per week.

Please note that an error was discovered in what had been reported to the Medical Equipment Registry for Johnson City Medical Center. The data for Mountain States Imaging at Med Tech Parkway, which is reported internally at MSHA as a department of JCMC, had been "double-counted", as those volumes were also included in the Johnson City Medical Center total. MSHA has notified the HSDA and provided corrected data to be reported as part of the Medical Equipment Registry, which is reflected in the table above.

5. Need Standards for Specialty MRI Units.
   a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to acquire a dedicated fixed or mobile breast MRI unit shall not receive a CON to use the MRI unit for non-dedicated purposes and shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:
      1. It has an existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MRI unit equipment, and that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;
      2. Its existing mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit are in compliance with the federal Mammography Quality Standards Act;
      3. It is part of or has a formal affiliation with an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is based in the proposed service area.
      4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation

oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, and primary care providers.

Response:
Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

b. Dedicated fixed or mobile Extremity MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 percent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Extremity MRI Unit and a CON granted for this use should so state on its face.

Response:
Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed of mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 percent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Multi-position MRI Unit and a CON granted for this use should so state on its face.

Response:
Not applicable. This application is for the addition of a non-Specialty stationary MRI unit at JCMC.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. If data availability permits, Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of the Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty

MRI unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

Response:
The additional MRI unit proposed in this project will be a non-Specialty MRI unit and will be reported in the non-Specialty inventory accordingly.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

   a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

      Response:
      Correspondence between Siemens Healthcare and the FDA regarding the equipment associated with this project is included in attachments.

   b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

      Response:
      Johnson City Medical Center will ensure that the physical environment resulting from this project complies as applicable with federal standards, manufacturer specifications, and licensing agency requirements.

   c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

      Response:
      Johnson City Medical Center currently has protocols in place to appropriately care for emergent patients, and no changes to those will be made as a result of this project.

   d. The applicant should establish protocols that assure that all MRI procedures performed are medically necessary and will not unnecessarily duplicate other services.
      Response:
      Mountain States Health Alliance has established protocols across all facilities' radiology departments and the MSHA Central Business Office to ensure that all MRI procedures performed are deemed medically necessary. These processes and protocols will not change as a result of this project and will be utilized to support this project upon its completion.

   e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

Response:
JCMC's MRI services, including those at its Outpatient Diagnostic Center, are accredited through the American College of Radiology. As part of this project, JCMC is prepared to ensure that it meets the standards set forth by the ACR, including those regarding staffing recommendations and requirements.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

Response:
JCMC's MRI services, including those at its Outpatient Diagnostic Center, are accredited through the American College of Radiology. As part of this project, JCMC is prepared to ensure that it obtains accreditation through the ACR accordingly upon the completion of this project.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

Response:
Johnson City Medical Center will continue to work closely with other healthcare providers in the region. JCMC has a close relationship with all other MSHA hospitals. In addition, MSHA already has existing transfer agreements with other area hospitals including those that are part of the Wellmont Health System, as well as Laughlin Memorial Hospital, as examples.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

Response:
Mountain States Health Alliance currently provides the appropriate data for its major medical equipment as required by the Agency to maintain the HSDA Equipment Registry. MSHA can assure that appropriate data for the MRI scanner as part of this project, if approved, will be submitted accordingly as well.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:
   a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;
   Response:
   Carter County, TN is medically underserved as designated by the HRSA; however, the other counties (Washington, Sullivan, and Greene) are not considered medically underserved.

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Response:
Johnson City Medical Center is licensed as a Level 1 Trauma Center and a Pediatric General Hospital by the Tennessee Department of Health and is considered to be a "safety net hospital."

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

Response:
Johnson City Medical Center currently participates in the multiple Medicaid/TennCare MCOs that serve the area and the Medicare program. A significant portion of JCMC's patient population has been and will continue to be made up of Medicare and Medicaid patients.

d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatrics, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

Response:
The MRI services as part of this project will be provided for inpatients, outpatients, and patients requiring emergency services. The clinical applications include MRI procedures requiring sedation, including anesthesia, for both adults and pediatric patients. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, orthopedic imaging, high resolution angiography and abdominal imaging, and total body imaging utilized for oncology studies.

With the units at JCMC's main campus at 3,234 procedures per unit for 2015, the complexity of procedures offered at JCMC heightens the impact on patients seeking MRI services. JCMC performs pediatric scans, sedation procedures for adults and pediatrics, and scans with contrast, all of which take much longer than the 30 minutes needed for a traditional MRI scan.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any, and how it relates to related previously approved projects of the applicant.

Response:
This project is consistent with the long-range plans of Mountain States Health Alliance and Johnson City Medical Center. JCMC has seen steady growth in its MRI volumes in recent years, and the addition of this 1.5T scanner will allow for continued growth by reducing lengthy patient wait times caused by limited capacity in the current state. MRI is also an integral part of

the service line initiatives identified in JCMC's strategic plan, such as Orthopedics, Neurosciences, and Oncology. Orthopedics and Neurosciences, including Spine, will continue to be key focus areas for JCMC, and appropriate and adequate MRI services will be needed to support the demand of patients from the project service area. This project will also support MSHA's pediatric initiatives by improving access for complex pediatric MRI procedures done exclusively at JCMC.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map for the Tennessee portion of the service area using the map on the following page, clearly marked to reflect the service area as it relates to meeting the requirements for CON criteria and standards that may apply to the project. Please include a discussion of the inclusion of counties in the border states, if applicable. **Attachment – Section – Need-3.**

Response:

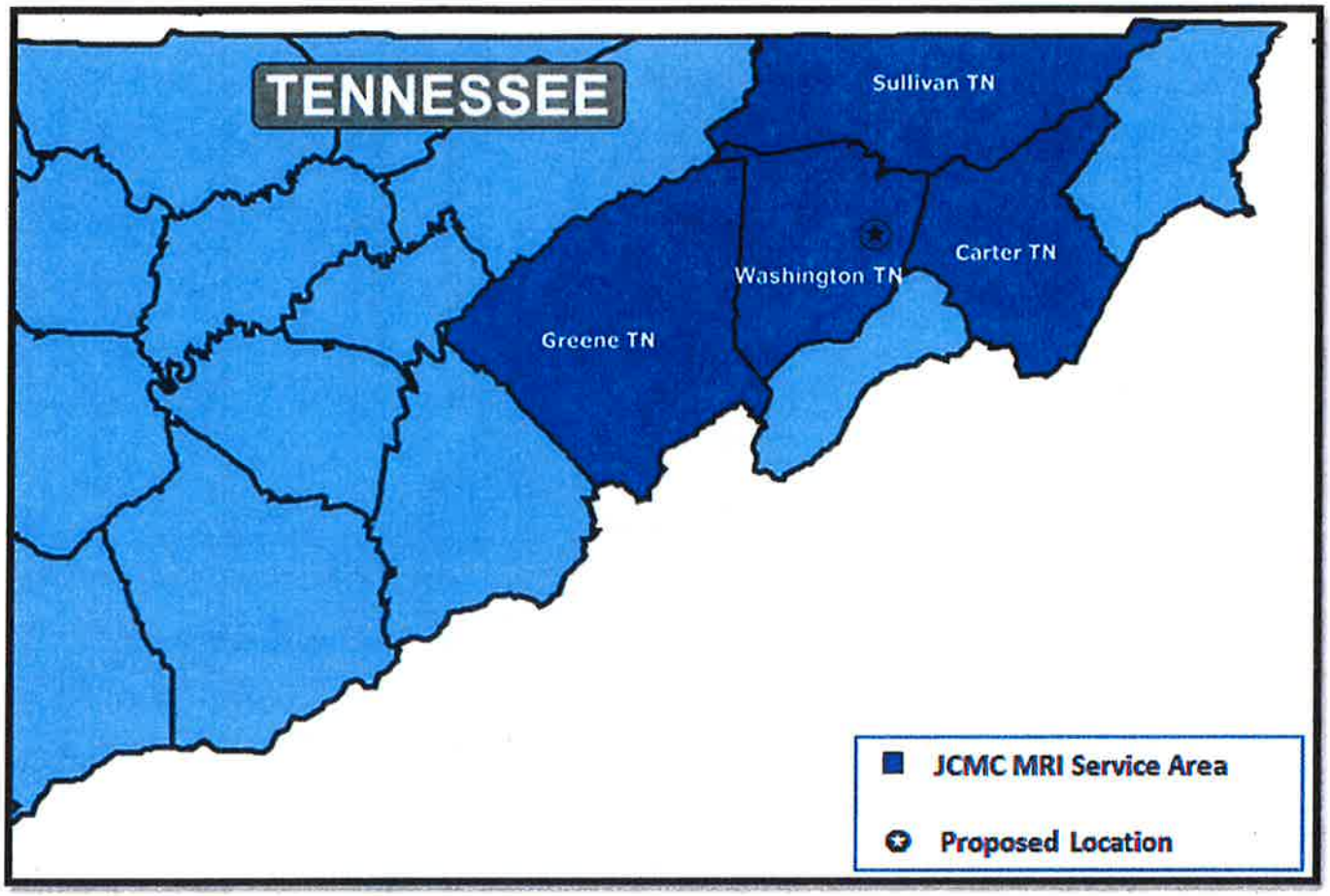
The majority of Johnson City Medical Center's MRI volume comes from the following counties: Washington, Carter, Sullivan, and Greene County, all of which are in Tennessee. The service area for this project will be defined as those four counties because patients from those counties made up 77% of JCMC's total MRI volume for fiscal year 2016. Because JCMC is a regional tertiary referral center that provides high acuity services, the remaining 23% of MRI volume came from a wide range of counties across multiple states.

Please complete the following tables, if applicable:

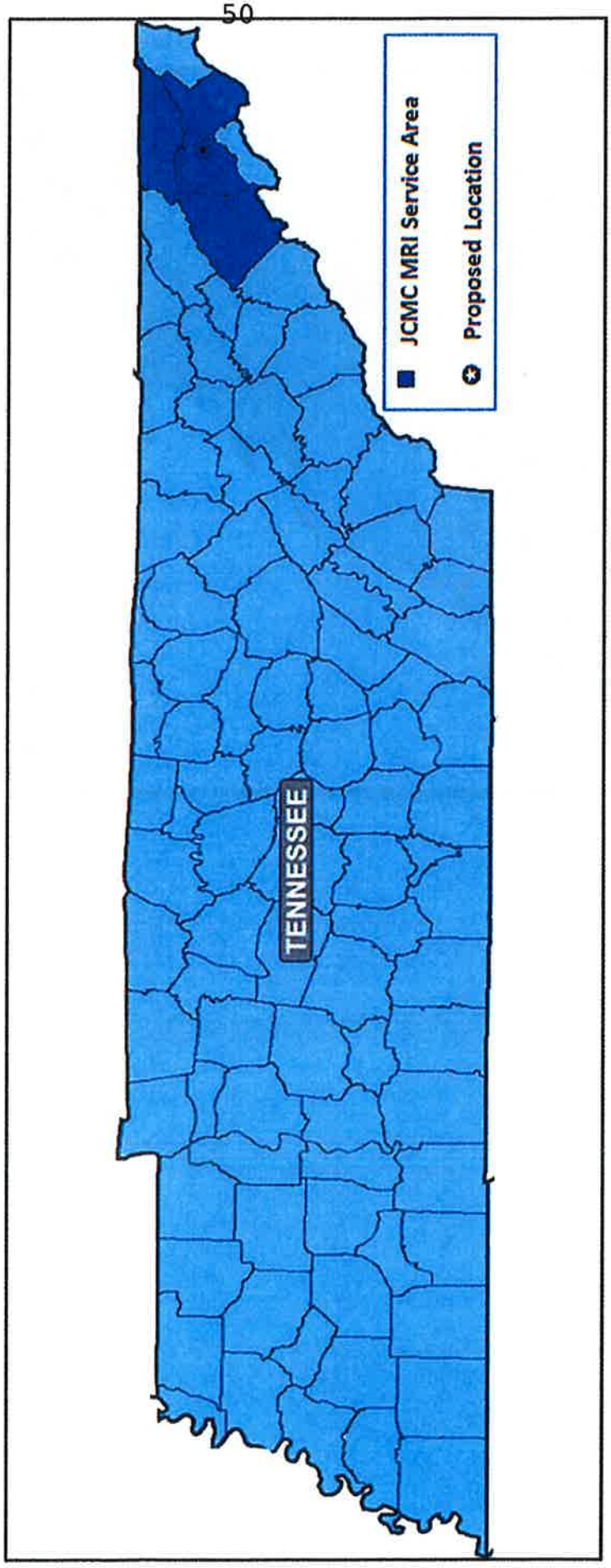
Service Area Counties	Historical Utilization-County Residents (Fiscal Year 2016)	% of total procedures
Washington	4,486	48.2%
Carter	1,064	11.4%
Sullivan	958	10.3%
Greene	654	7.0%
All Other	2,155	23.1%
Total	9,317	100%

Service Area Counties	Projected Utilization-County Residents (Year 1)	% of total procedures
Washington	5,079	49.0%
Carter	1,244	12.0%
Sullivan	1,036	10.0%
Greene	726	7.0%
All Other	2,280	22.0%
Total	10,365	100%

Maps depicting the service area for the proposed project are provided on the following pages.


TENNESSEE
Sullivan TN
Carter TN
Washington TN
Greene TN
JCMC MRI Service Area
Proposed Location

County Level Map



4. A. 1) Describe the demographics of the population to be served by the proposal.

RESPONSE:
The population of the proposed service area for this project is 423,406 according to Tennessee Department of Health estimates. This data projects 2.4% growth in the proposed service area from 2016 to 2020.

Within the service area, a higher growth rate is expected among those ages 65 and older. The continued growth in this age group is significant, as residents ages 65 and older are projected to make up approximately 22% of the service area population by the year 2020.

A demographic snapshot of the project's service area which was prepared by Sg2 is included in the attachments. Sg2 is an international healthcare company that provides analytics (including demographics and utilization projections), intelligence, consulting and educational services to over 1,200 organizations around the world. Their analytics-based health care expertise helps hospitals and health systems integrate, prioritize and drive growth and performance across the continuum of care.

Compared to the state of Tennessee, the demographics of the proposed project's service area are similar in terms of gender (51 percent female, 49 percent male). The service area counties have a lower median household income of $39,065 compared to $44,621 for Tennessee. The racial mix in the facility service area is predominately Caucasian, accounting for more than 93 percent of the population.

2) Using current and projected population data from the Department of Health, the most recent enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, complete the following table and include data for each county in your proposed service area.

Projected Population Data: http://www.tn.gov/health/article/statistics-population

TennCare Enrollment Data: http://www.tn.gov/tenncare/topic/enrollment-data

Census Bureau Fact Finder: http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml

Response:
The following table has been updated with the requested data for the proposed project service area.

Demographic Variable/Geographic Area	Department of Health/Health Statistics							Bureau of the Census				TennCare	
	Total Population-Current Yr (2016)	Total Population-Projected Yr (2020)	Total Population-% Change	*Target Population-(65+) Current Year	*Target Population-(65+) Project ed Yr	*Target Population-(65+) % Change	Target Population (65+) Projected Year as % of Total	Median Age	Median Household Income	Person Below Poverty Level	Person Below Poverty Level as % of Total	TennCare Enrollees	TennCare Enrollees as % of Total
Washington	133,817	140,905	5.3%	24,231	28,137	16.1%	20.0%	39.7	$42,935	21,605	17.9%	25,778	19.3%
Carter	58,139	58,375	0.4%	12,124	13,475	11.1%	23.1%	43.2	$32,754	13,060	23.5%	13,811	23.8%
Sullivan	158,938	159,749	0.5%	34,510	38,067	10.3%	23.8%	44.1	$39,577	27,716	18.0%	35,635	22.4%
Greene	72,512	74,656	3.0%	15,550	17,790	14.4%	23.8%	43.4	$35,860	14,780	22.1%	16,294	22.5%
Service Area Total	423,406	433,685	2.4%	86,415	97,469	12.8%	22.5%	42.5	$39,065	77,161	19.4%	91,518	21.6%
State of TN Total	6,812,005	7,108,031	4.3%	1,091,516	1,266,295	16.0%	17.8%	38.3	$44,621	1,121,344	17.8%	1,551,984	22.8%

** Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. Projected Year is defined in select service-specific criteria and standards. If Projected Year is not defined, default should be four years from current year, e.g., if Current Year is 2016, then default Projected Year is 2020.*

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response:

Compared to the state of Tennessee, the demographics of the proposed project's service area are similar in terms of gender (51 percent female, 49 percent male). The service area counties have a lower median household income of $39,065 compared to $44,621 for Tennessee. The racial mix in the facility service area is predominately Caucasian, accounting for more than 93 percent of the population. The proposed service area demographics across the areas of gender and race/ethnicity are relatively consistent with Tennessee, although the service area is much less diverse compared to the rest of the country.

The largest socio-demographic challenges in the proposed service area relate to the much older population, as well as significantly lower levels of income and education. As described in the table above, the population ages 65 and older will account for approximately 22% of the service area population by the year 2020, which is much higher than the state total. Access to services such as MRI is particularly important to this elderly population. The percentage of the service area population below the poverty level, at 19.4% according to most recent data, is also higher compared to the state total of 17.8%.

5. Describe the existing and approved but unimplemented services of similar healthcare providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: Admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. This doesn't apply to projects that are solely relocating a service.

Response:

Within the proposed project service area, there are currently 19 non-specialty MRI units. Utilization of the units in the service area reached 2,875 procedures per unit in 2015, which is just under the standard of 2,880 procedures as defined in the State Health Plan Standards and Criteria for MRI. There are no approved but unimplemented CONs to add MRI units to the service area. Utilization of the existing units is summarized in the following table:

County	Type	Facility	# MRI Units			Procedures		
			2013	2014	2015	2013	2014	2015
Washington	HOSP	Johnson City Medical Center	2	2	2	6,617	6,575	6,467
	ODC	Mountain States Imaging at Med Tech Parkway	1	1	1	2,448	2,328	2,666
	HOSP	Franklin Woods Community Hospital	1	1	1	3,529	3,772	4,432
	PO	Watauga Orthopaedics, PLC	1	1	1	2,337	2,221	2,465
Carter	HOSP	Sycamore Shoals Hospital[1]	1	1	0.85	1,719	1,880	1,818
	PO	Medical Care, PLLC[1]	-	-	0.15	-	-	126
Sullivan	HOSP	Bristol Regional Medical Center	2	2	2	6,323	6,151	8,452
	HODC	Holston Valley Imaging Center, LLC	3	3	3	8,787	6,516	8,970
	HOSP	Holston Valley Medical Center	1	1	1	3,326	2,867	3,148
	HOSP	Indian Path Medical Center	1	1	1	2,807	2,913	3,173
	ODC	Meadowview Outpatient Diagnostic Center	1	1	1	4,350	4,187	4,178
	ODC	Sapling Grove Outpatient Diagnostic Center	1	1	1	2,245	2,231	2,158
	HODC	Volunteer Parkway Imaging Center	1	1	1	1,239	1,153	1,413
Greene	HOSP	Laughlin Memorial Hospital, Inc.	2	2	2	3,159	3,248	3,284
	HOSP	Takoma Regional Hospital	1	1	1	1,610	2,224	1,880
		Service Area Total	19	19	19	50,496	48,266	54,630
		Historical Procedures per MRI				2,658	2,540	2,875

Source: Health Services and Development Agency Medical Equipment Registry Statistics

1) Medical Care, PLLC began utilizing Sycamore Shoals Hospital's MRI unit in 2015, under contract, 3 half-days per week.

Please note that an error was discovered in what had been reported to the Medical Equipment Registry for Johnson City Medical Center. The data for Mountain States Imaging at Med Tech Parkway, which is reported internally at MSHA as a department of JCMC, had been "double-counted", as those volumes were also included in the Johnson City Medical Center total. MSHA has notified the HSDA and provided corrected data to be reported as part of the Medical Equipment Registry, which is reflected in the table above.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three years and the projected annual utilization for each of the two years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology **must include** detailed calculations or documentation from referral sources, and identification of all assumptions.

Response:

Historical and projected utilization data for Johnson City Medical Center's MRI services are listed below. Projections for this project were developed through collaboration between MSHA leadership and Sg2, a healthcare organization that was profiled earlier in this application. These projections are based on an internal assessment of the current market in conjunction with inpatient and outpatient projections developed by Sg2.

Trends in JCMC MRI Volume

JCMC MRI Historical and Projected Utilization	Historical				Projected	
	2013	2014	2015	2016	Year 1 (FY18)	Year 2 (FY19)
JCMC Total MRI Procedures (including Outpatient Diagnostic Center)	9,065	8,903	9,133	9,317	10,365	10,373
JCMC Total MRI Units	3	3	3	3	4	4
Utilization per JCMC MRI Unit	3,022	2,968	3,044	3,106	2,591	2,593

While MRI volumes for the project service area are projected to grow modestly, JCMC anticipates growth as a result of this project through the addition of MRI capacity. Seventy percent (70%) of the increased cases at JCMC are assumed to be MRI scans that would have otherwise been performed at another MSHA hospital, such as Franklin Woods Community Hospital or Indian Path Medical Center, but are scheduled at JCMC because of the quicker availability and patient convenience. The remaining projected growth in MRI scans at JCMC is attributable to overall growth in volume commensurate with historical experience.

ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
   A. All projects should have a project cost of at least $15,000 (the minimum CON Filing Fee). (See Application Instructions for Filing Fee)
   B. The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.
   C. The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
   D. Complete the Square Footage Chart on page 8 and provide the documentation. Please note the Total Construction Cost reported on line 5 of the Project Cost Chart should equal the Total Construction Cost reported on the Square Footage Chart.
   E. For projects that include new construction, modification, and/or renovation—**documentation must be** provided from a licensed architect or construction professional that support the estimated construction costs. Provide a letter that includes the following:
      1) A general description of the project;
      2) An estimate of the cost to construct the project;
      3) A description of the status of the site's suitability for the proposed project; and
      4) Attesting the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the AIA Guidelines for Design and Construction of Hospital and Health Care Facilities in current use by the licensing authority.

Response:
The project costs for this proposal are identified in the Project Costs Chart below.
Documentation support from an architect is included in attachments.

PROJECT COST CHART

A.	Construction and equipment acquired by purchase:		
	1.	Architectural and Engineering Fees	$20,000
	2.	Legal, Administrative (Excluding CON Filing Fee), Consultant Fees	$10,000
	3.	Acquisition of Site	-
	4.	Preparation of Site	-
	5.	Total Construction Costs	$212,500
	6.	Contingency Fund	$10,000
	7.	Fixed Equipment (Not included in Construction Contract)	$1,755,608
	8.	Moveable Equipment (List all equipment over $50,000 as separate attachments)	-
	9.	Other (Specify) _____	-
B.	Acquisition by gift, donation, or lease:		
	1.	Facility (inclusive of building and land)	-
	2.	Building only	-
	3.	Land only	-
	4.	Equipment (Specify)_____	-
	5.	Other (Specify) _____	-
C.	Financing Costs and Fees:		
	1.	Interim Financing	-
	2.	Underwriting Costs	-
	3.	Reserve for One Year's Debt Service	-
	4.	Other (Specify) _____	-
D.	Estimated Project Cost (A+B+C)		**$2,008,108**
E.	CON Filing Fee		$15,000
F.	Total Estimated Project Cost (D+E)	**TOTAL**	**$2,023,108**

2. Identify the funding sources for this project.

   Check the applicable item(s) below and briefly summarize how the project will be financed. ***(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)***

   ___ A. Commercial loan – Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;

   ___ B. Tax-exempt bonds – Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;

   ___ C. General obligation bonds – Copy of resolution from issuing authority or minutes from the appropriate meeting;

   ___ D. Grants – Notification of intent form for grant application or notice of grant award;

   _X_ E. Cash Reserves – Appropriate documentation from Chief Financial Officer of the organization providing the funding for the project and audited financial statements of the organization; and/or

   ___ F. Other – Identify and document funding from all other sources.

   Response:
   The project will be funded from existing cash reserves from operations at Mountain States Health Alliance. Documentation of the availability of funds to complete the project is provided in attachments.

3. Complete Historical Data Charts on the following two pages—***Do not modify the Charts provided or submit Chart substitutions!***

   Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available. Provide a Chart for the total facility and Chart just for the services being presented in the proposed project, if applicable. **Only complete one chart if it suffices.**

   Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

HISTORICAL DATA CHART*

☐ Total Facility
☒ Project Only

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in **July** (Month).

		Year FY2014	Year FY2015	Year FY2016
A.	Utilization Data - **MRI Procedures (Inpatient and Outpatient) for JCMC and Mountain States Imaging at Med Tech Parkway**	8,903	9,133	9,317
B.	Revenue from Services to Patients			
1.	Inpatient Services			
2.	Outpatient Services	$35,583,272	$37,378,288	$36,438,217
3.	Emergency Services			
4.	Other Operating Revenue (Specify)_____			
	Gross Operating Revenue	**$35,583,272**	**$37,378,288**	**$36,438,217**
C.	Deductions from Gross Operating Revenue			
1.	Contractual Adjustments	$29,808,934	$31,479,702	$30,508,623
2.	Provision for Charity Care	$397,076	$452,932	$397,063
3.	Provisions for Bad Debt	$403,878	$577,875	$503,667
	Total Deductions	**$30,609,888**	**$32,510,509**	**$31,409,353**
NET OPERATING REVENUE		**$4,973,384**	**$4,867,779**	**$5,028,864**
D.	Operating Expenses			
1.	Salaries and Wages			
a.	Direct Patient Care	$777,049	$714,083	$678,105
b.	Non-Patient Care	$402,187	$332,219	$314,668
2.	Physician's Salaries and Wages			
3.	Supplies	$231,246	$208,116	$246,531
4.	Rent			
a.	Paid to Affiliates			
b.	Paid to Non-Affiliates			
5.	Management Fees:			
a.	Paid to Affiliates			
b.	Paid to Non-Affiliates			
6.	Other Operating Expenses (Service Contracts, Mileage, Benefits, Corporate/Admin Team Allocation, Travel, Other)	$1,559,234	$1,524,090	$1,422,353
	Total Operating Expenses	**$2,969,716**	**$2,778,508**	**$2,661,657**
E.	**Earnings Before Interest, Taxes and Depreciation**	**$2,003,668**	**$2,089,271**	**$2,367,207**
F.	Non-Operating Expenses			
1.	Taxes			
2.	Depreciation	$969,393	$398,931	$371,449
3.	Interest	$396,556	$90,251	$94,642
4.	Other Non-Operating Expenses			
	Total Non-Operating Expenses	**$1,365,949**	**$489,182**	**$466,091**
NET INCOME (LOSS)		**$637,719**	**$1,600,089**	**$1,901,116**

Chart Continues Onto Next Page

***NOTE:** Revenue and expenses in Historical Data Chart are for outpatient services only because Inpatient MRI procedures are covered under applicable DRGs, and there is no inpatient revenue attributable to these scans.

NET INCOME (LOSS)	**$637,719**	**$1,600,089**	**$1,901,116**
G. Other Deductions			
1. Annual Principal Debt Repayment			
2. Annual Capital Expenditure			
Total Other Deductions			
NET BALANCE	$637,719	$1,600,089	$1,901,116
DEPRECIATION	$969,393	$398,931	$371,449
FREE CASH FLOW (Net Balance + Depreciation)	**$1,607,112**	**$1,999,020**	**$2,272,565**

☐ Total Facility

☒ Project Only

HISTORICAL DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year _____	Year _____	Year _____
1. _____	$_____	$_____	$_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____
5. _____	_____	_____	_____
6. _____	_____	_____	_____
7. _____	_____	_____	_____
Total Other Expenses	**$_____**	**$_____**	**$_____**

***NOTE:** Revenue and expenses in Historical Data Chart are for outpatient services only because Inpatient MRI procedures are covered under applicable DRGs, and there is no inpatient revenue attributable to these scans.

4. Complete Projected Data Charts on the following two pages – ***Do not modify the Charts provided or submit Chart substitutions!***

   The Projected Data Chart requests information for the two years following the completion of the proposed services that apply to the project. Please complete two Projected Data Charts. One Projected Data Chart should reflect revenue and expense projections for the ***Proposal Only*** (*i.e.*, if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility). The second Chart should reflect information for the total facility. **Only complete one chart if it suffices.**

   Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

PROJECTED DATA CHART

☐ Total Facility
☒ Project Only

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July (Month).

		Year FY2018	Year FY2019
A.	Utilization Data – **Incremental Inpatient & Outpatient Procedures**	**1,048**	**1,056**
B.	Revenue from Services to Patients		
1.	Inpatient Services		
2.	Outpatient Services	$4,772,673	$4,850,815
3.	Emergency Services		
4.	Other Operating Revenue (Specify)_____		
	Gross Operating Revenue	**$4,772,673**	**$4,850,815**
C	Deductions from Gross Operating Revenue		
1.	Contractual Adjustments	$4,228,195	$4,300,415
2.	Provision for Charity Care	$47,965	$48,799
3.	Provisions for Bad Debt	$47,965	$47,965
	Total Deductions	**$4,324,125**	**$4,397,179**
NET OPERATING REVENUE		**$448,548**	**$453,636**
D.	Operating Expenses		
1.	Salaries and Wages	$32,302	$34,446
a.	Direct Patient Care		
b.	Non-Patient Care		
2.	Physician's Salaries and Wages		
3.	Supplies	$11,881	$12,351
4.	Rent		
a.	Paid to Affiliates		
b.	Paid to Non-Affiliates		
5.	Management Fees:		
a.	Paid to Affiliates		
b.	Paid to Non-Affiliates		
6.	Other Operating Expenses (Benefits, Maintenance Contract)	$118,513	$119,864
	Total Operating Expenses	**$162,696**	**$166,662**
E.	**Earnings Before Interest, Taxes and Depreciation**	**$285,852**	**$286,975**
F.	Non-Operating Expenses		
1.	Taxes		
2.	Depreciation	$159,000	$159,000
3.	Interest		
4.	Other Non-Operating Expenses		
	Total Non-Operating Expenses	**$159,000**	**$159,000**
NET INCOME (LOSS)		**$126,852**	**$127,975**

Chart Continues Onto Next Page

***NOTE:** Revenue and expenses in Projected Data Chart are for outpatient services only because Inpatient MRI procedures are covered under applicable DRGs, and there is no inpatient revenue attributable to these scans.

NET INCOME (LOSS)	**$126,852**	**$127,975**
G. Other Deductions		
1. Estimated Annual Principal Debt Repayment		
2. Annual Capital Expenditure		
Total Other Deductions	$	$
NET BALANCE	$126,852	$127,975
DEPRECIATION	$159,000	$159,000
FREE CASH FLOW (Net Balance + Depreciation)	**$285,852**	**$286,975**

☐ Total Facility

☒ Project Only

PROJECTED DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year FY2018	Year FY2019
1. Professional Services Contract	$111,174	$112,286
2. Employee Benefits	$7,339	$7,578
3. _____		
4. _____		
5. _____		
6. _____		
7. _____		
Total Other Expenses	**$118,513**	**$119,864**

***NOTE:** Revenue and expenses in Projected Data Chart are for outpatient services only because Inpatient MRI procedures are covered under applicable DRGs, and there is no inpatient revenue attributable to these scans.

5. A. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.

	Previous Year	Current Year	Year One	Year Two	% Change (Current Year to Year 2)
Gross Charge *(Gross Operating Revenue/Utilization Data)*	$4,093	$3,911	$4,554	$4,594	17.5%
Deduction from Revenue *(Total Deductions/Utilization Data)*	$3,560	$3,371	$4,126	$4,164	23.5%
Average Net Charge *(Net Operating Revenue/Utilization Data)*	$533	$540	$428	$430	-20.4%

Response:
The data included in this chart is based on the financial information provided in the Historical Data Chart and Projected Data Chart. Please reference those charts for the details of what was included in the calculations.

B. Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.

Response:
Existing charges are set forth in part A above. This project will not affect patient charges, and no adjustments to current charges will be made as a result of this project other than those that would occur at the facility anyway.

C. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response:
The charges associated with MRI services currently provided at Johnson City Medical Center are reasonable in comparison to rates of other providers across the state of Tennessee.

The following chart outlines a comparison of average gross charge per MRI procedure for JCMC with those of other comparable hospitals across Tennessee. As evident, the MRI charges for JCMC compare favorably with other hospitals.

Trend in Charge Comparison for MRI Procedures

	Avg Charge per MRI Procedure		
Facility	2013	2014	2015
Johnson City Medical Center (including Mountain States Imaging at Med Tech Parkway)	$4,431.49	$4,653.18	$4,639.32
Tennessee Hospital A	$4,132.71	$4,130.15	$4,235.44
Tennessee Hospital B	$4,400.84	$4,380.58	$4,269.63
Tennessee Hospital C	$5,144.88	$5,468.63	$5,959.69

Tennessee Hospital D	$4,297.56	$4,562.96	$4,365.55
Tennessee Hospital E	$4,044.52	$4,248.59	$4,487.90
Tennessee Hospital F	$4,637.43	$4,883.93	$4,632.85

Source: Health Services and Development Agency Medical Equipment Registry Statistics

6. A. Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility. **NOTE: Publicly held entities only need to reference their SEC filings.**

Response:
This project is expected to realize a positive financial margin in Year 1; cash flow is projected to be $285,852 and $286,975 in Years 1 and 2, respectively. More detailed information for this project is included in the Projected Data Chart.

B. Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	0.40	0.43	0.47	0.64	0.63

C. Capitalization Ratio (Long-term debt to capitalization) – Measures the proportion of debt financing in a business's permanent (Long-term) financing mix. This ratio best measures a business's true capital structure because it is not affected by short-term financing decisions. The formula for this ratio is: (Long-term debt/(Long-term debt/Total Equity (Net assets)) x 100).

For the entity (applicant and/or parent company) that is funding the proposed project please provide the capitalization ratio using the most recent year available from the funding entity's audited balance sheet, if applicable. The Capitalization Ratios are not expected from outside the company lenders that provide funding.

Response:
All financial information for Mountain States Health Alliance relative to the capitalization ratio can be found in the audited financial reports for Fiscal Year 2014 and 2015 and the unaudited reports for Fiscal Year 2016. These are included in the attachments.

7. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid and medically indigent patients will be served by the project. Additionally, report the estimated gross operating revenue dollar amount and percentage of projected gross operating revenue anticipated by payor classification for the first year of the project by completing the table below.

Response:
As with all facilities within Mountain States Health Alliance, Johnson City Medical Center will be committed to meeting the needs of the community and the region, and it will continue the provision of medically necessary care, regardless of socioeconomic status, payor source, age, race or gender. JCMC currently participates in both Federal and State programs, including Medicare, TennCare and Medicaid programs. Medicare patients comprise approximately 39% of JCMC's MRI patient revenue, TennCare/Medicaid patients make up approximately 20%, with another 3% combined from charity and self-pay. Projected revenue by source for JCMC MRI is detailed in the table below:

Applicant's Projected Payor Mix, Year 1

Payor Source	Projected Gross Operating Revenue	As a % of total
Medicare/Medicare Managed Care	$1,847,024	38.7%
TennCare/Medicaid	$959,307	20.1%
Commercial/Other Managed Care	$1,589,300	33.3%
Charity / Self-Pay	$157,498	3.3%
Other	$219,543	4.6%
Total	**$4,772,673**	**100.0%**

8. Provide the projected staffing for the project in Year 1 and compare to the current staffing for the most recent 12-month period, as appropriate. This can be reported using full-time equivalent (FTEs) positions for these positions. Additionally, please identify projected salary amounts by position classifications and compare the clinical staff salaries to prevailing wage patterns in the proposed service area as published by the Department of Labor & Workforce Development and/or other documented sources.

Response:

The following table includes anticipated staffing patterns for MRI operations at Johnson City Medical Center, as well as current average wages for JCMC MRI tech FTEs compared to the prevailing wage patterns for the same positions as obtained from the Tennessee Department of Labor & Workforce Development.

Position Classification	Existing FTEs (FY2016)	Projected FTEs Year 1	Average Wage (Hourly Rate)	Area/Statewide Avg Hourly Rate
A. Direct Patient Care Positions				
MRI Technologist	7.9	8.9	$26.00	$27.60
Total Direct Patient Care Positions	**7.9**	**8.9**	**$26.00**	**$27.60**
B. Non-Patient Care Positions				
Total Non-Patient Care Positions	**0**	**0**	**-**	**-**
Total Employees *(A+B)*	**7.9**	**8.9**	**$26.00**	**$27.60**
C. Contractual Staff	**0**	**0**	**-**	**-**
Total Staff *(A+B+C)*	**7.9**	**8.9**	**$26.00**	**$27.60**

9. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

   A. Discuss the availability of less costly, more effective and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, justify why not, including reasons as to why they were rejected.

   Response:
   Several options were considered in regard to MRI services at JCMC. These include: 1) maintain the status quo; 2) initiate mobile MRI service; and 3) purchase a new 1.5T MRI scanner.

   1) Maintain the status quo – This option is not acceptable because JCMC needs additional capacity to reduce the backlog currently being experienced for key procedures as part of its MRI services. The wait times for next available appointment at JCMC are: 4 weeks for adult moderate sedation procedures, 5.5 weeks for pediatric moderate sedation procedures, and 2 weeks for anesthesia procedures for both adults and pediatrics. Maintaining the status quo would not create a way of providing more available MRI services to the patient population. Because Johnson City Medical Center strives to offer high quality, accessible care to its patient population, this option was rejected.
   2) Initiate mobile MRI service – Another alternative is the initiation of mobile MRI services at the JCMC campus. This alternative is not acceptable due to its location and cost. From a clinical perspective, cases requiring sedation and contrast could not be safely performed at this location due of the distance from the radiologists and the rest of the care team, thus creating an inefficient workflow for radiology staff. Mobile services are also cost prohibitive and do not make sense considering JCMC can support another fixed unit.

3) Purchase a new 1.5T MRI scanner – Given the volume and acuity of patients treated at JCMC, the purchase of a new 1.5T MRI scanner appears to be the most cost-effective and clinically appropriate method for JCMC to enhance its MRI services for the residents of this project's service area.

B. Document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements.

Response:
Alternatives to the purchase of a new 1.5T MRI scanner were considered as previously noted. Construction for this proposed project is limited to renovation of existing space, and the purchase of a new scanner is appropriate considering the age and extensive use of the existing JCMC MRI scanners. Maintaining the status quo would not create a way of providing more available MRI services to the patient population. Sharing arrangements would not be appropriate in this situation given the difficulty and expense of transferring inpatients to an outside MRI facility. Also, sharing arrangements in the form of mobile MRI service were also deemed inappropriate given the expense, inefficiency, and clinical concerns associated with providing MRI services in a mobile setting at Johnson City Medical Center.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (i.e., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, that may directly or indirectly apply to the project, such as, transfer agreements, contractual agreements for health services.

Response:
Johnson City Medical Center will continue to work closely with other healthcare providers in the region, including: Mountain States Health Alliance hospitals, East Tennessee State University and the James H. Quillen College of Medicine, local nursing homes, clinics and other healthcare providers. MSHA already has existing transfer agreements with other area hospitals including those that are part of the Wellmont Health System, as well as Laughlin Memorial Hospital, as examples.

2. Describe the effects of competition and/or duplication of the proposal on the health care system, including the impact to consumers and existing providers in the service area. Discuss any instances of competition and/or duplication arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

A. Positive Effects

Response:
Patients utilizing magnetic resonance imaging services at Johnson City Medical Center will be the beneficiaries of the positive effects from this proposal. As previously described, back logs for scheduled procedures, heavy use of the current units for time-consuming sedation procedures, and a large inpatient population at JCMC cause lengthy waits for patients in all care settings. The additional scanning capacity provided by this proposal would alleviate the current delays and reduce the back log of cases, providing accessible and efficient delivery of MRI services for all types of patients. This project provides JCMC the ability to develop a patient centered care environment, as efficiency and accessibility are significantly improved for the patient.

B. Negative Effects

Response:

This proposal is addressing the need for additional MRI capacity for existing patient populations that are already being seen at Johnson City Medical Center. The proposal will not have negative impacts on other providers, as it is seeking to better support the growth in patient volumes realized at JCMC. This proposal is not seeking the initiation of any new services at Johnson City Medical Center. It is meant to be a complement to already existing MRI services to improve the experience for patients utilizing JCMC MRI services.

3. A. Discuss the availability of and accessibility to human resources required by the proposal, including clinical leadership and adequate professional staff, as per the State of Tennessee licensing requirements and/or requirements of accrediting agencies, such as the Joint Commission and Commission on Accreditation of Rehabilitation Facilities.

Response:

Mountain States Health Alliance recruits and retains staff by offering salary and benefit packages appropriate for the market. Staffing recruitment and retention policies are consistent throughout all Mountain States Health Alliance facilities, and no changes will be made to those policies as a result of this project. Recruitment for the additional MRI tech needed for operations of the new MRI unit will begin upon approval of this project.

B. Verify that the applicant has reviewed and understands all licensing and/or certification as required by the State of Tennessee and/or accrediting agencies such as the Joint Commission for medical/clinical staff. These include, without limitation, regulations concerning clinical leadership, physician supervision, quality assurance policies and programs, utilization review policies and programs, record keeping, clinical staffing requirements, and staff education.

Response:

Johnson City Medical Center has reviewed and understands all licensing and certification as required by the State of Tennessee. Mountain States Health Alliance has policies and procedures in place governing regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping, and staff education.

C. Discuss the applicant's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).

Response:

Mountain States Health Alliance facilities work extensively with local colleges and universities in the training of students. Existing relationships include affiliations with the James H. Quillen College of Medicine, East Tennessee State University, located in Johnson City, TN, in which facilities such as Johnson City Medical Center provide clinical training for medical students and residents. MSHA also works with other area colleges and universities in the training of students, including nurses, radiology technologists and respiratory therapists. Mountain States Health Alliance facilities are training sites for programs at East Tennessee State University, King University, Milligan College, Northeast State Community College, and several other local colleges.

4. Identify the type of licensure and certification requirements applicable and verify the applicant has reviewed and understands them. Discuss any additional requirements, if applicable. Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

A. If an existing institution, describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility and accreditation designation.

Response:

Johnson City Medical Center is currently licensed as a general acute care hospital, pediatric general hospital, and level 1 trauma center by the Tennessee Department of Health Board for Licensing Health Care Facilities. A copy of JCMC's license from the State of Tennessee is included in the attachments.

JCMC is accredited by The Joint Commission (TJC), and a copy of JCMC's TJC Official Accreditation Report Summary Statement is attached.

B. For existing providers, please provide a copy of the most recent statement of deficiencies/plan of correction and document that all deficiencies/findings have been corrected by providing a letter from the appropriate agency.

Response:

A copy of JCMC's TJC Official Accreditation Report Summary Statement is attached.

C. Document and explain inspections within the last three survey cycles which have resulted in any of the following state, federal, or accrediting body actions: suspension of admissions, civil monetary penalties, notice of 23-day or 90-day termination proceedings from Medicare/Medicaid/TennCare, revocation/denial of accreditation, or other similar actions.

1) Discuss what measures the applicant has or will put in place to avoid similar findings in the future.

Response:
JCMC has had none of the actions described in this question imposed upon it as a result of any recent surveys.

5. Respond to all of the following and for such occurrences, identify, explain and provide documentation:

A. Has any of the following:

1) Any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant);

2) Any entity in which any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%; and/or

3) Any physician or other provider of health care, or administrator employed by any entity in which any person(s) or entity with more than 5% ownership in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%.

B. Been subjected to any of the following:

1) Final Order or Judgment in a state licensure action – **Response:** No

2) Criminal fines in cases involving a Federal or State health care offense – **Response:** No

3) Civil monetary penalties in cases involving a Federal or State health care offense – **Response:** No

4) Administrative monetary penalties in cases involving a Federal or State health care offense – **Response:** No

5) Agreement to pay civil or administrative monetary penalties to the federal government or any state in cases involving claims related to the provision of health care items and services – **Response:** No

6) Suspension or termination of participation in Medicare or Medicaid/TennCare programs – **Response:** No

7) Is presently subject of/to an investigation, regulatory action, or party in any civil or criminal action of which you are aware.

Response:
Mountain States Health Alliance has received notice from the U.S. Department of Health and Human Services, Office for Civil Rights of a complaint made by an individual with disabilities regarding whether a particular entrance to the Johnson City Medical Center building complies with certain access requirements. MSHA has responded as requested and is awaiting further communication from the OCR representative.

MSHA is cooperating with the U.S. Department of Justice regarding a complaint that alleges Johnson City Medical Center failed to provide effective communication to the companions of a specific adult patient as required under the Americans with Disabilities Act. MSHA denies the allegations in the complaint and is working with the Department of Justice on a mutually agreeable resolution.

8) Is presently subject to a corporate integrity agreement – **Response:** No

6. Outstanding Projects:

A. Complete the following chart by entering information for each applicable outstanding CON by applicant or share common ownership; and

Outstanding Projects					
CON Number	Project Name	Date Approved	*Annual Progress Report(s)		Expiration Date
			Due Date	Date Filed	

* Annual Progress Reports – HSDA Rules require that an Annual Progress Report (APR) be submitted each year. The APR is due annually until the Final Project Report (FPR) is submitted (FPR is due within 90 ninety days of the completion and/or implementation of the project). Brief progress status updates are requested as needed. The project remains outstanding until the FPR is received.

Response:
There are currently no outstanding CONs for Johnson City Medical Center.

B. Provide a brief description of the current progress, and status of each applicable outstanding CON.

Response:
There are currently no outstanding CONs for Johnson City Medical Center.

7. Equipment Registry – For the applicant and all entities in common ownership with the applicant.

   A. Do you own, lease, operate, and/or contract with a mobile vendor for a Computed Tomography scanner (CT), Linear Accelerator, **Magnetic Resonance Imaging (MRI)**, and/or Positron Emission Tomographer (PET)?

   Response: Yes, MSHA's Johnson County Community Hospital, a critical access hospital located in Mountain City (Johnson County), TN, utilizes mobile MRI through a lease with New Millennium Healthcare, Inc.

   B. If yes, have you submitted their registration to HSDA? If you have, what was the date of submission?
   Response: Registration for the service mentioned in Part A was submitted to the HSDA on March 31, 2016.

   C. If yes, have you submitted your utilization to Health Services and Development Agency? If you have, what was the date of submission?
   Response: Utilization data for the service mentioned in Part A was submitted to the HSDA on March 31, 2016.

QUALITY MEASURES

Please verify that the applicant will report annually using forms prescribed by the Agency concerning continued need and appropriate quality measures as determined by the Agency pertaining to the certificate of need, if approved.

Response:
The applicant will, if approved, provide the Tennessee Health Services and Development Agency with appropriate reporting as it pertains to this project concerning need and appropriate quality measures as determined by the HSDA.

STATE HEALTH PLAN QUESTIONS

T.C.A. §68-11-1625 requires the Tennessee Department of Health's Division of Health Planning to develop and annually update the State Health Plan (found at http://www.tn.gov/health/topic/health-planning). The State Health Plan guides the State in the development of health care programs and policies and in the allocation of health care resources in the State, including the Certificate of Need program. The 5 Principles for Achieving Better Health are from the State Health Plan's framework and inform the Certificate of Need program and its standards and criteria.

Discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan.

1. The purpose of the State Health Plan is to improve the health of the people of Tennessee.

   Response:
   This project is designed to improve the health of the people of Tennessee by positioning JCMC to more effectively meet the demands of residents of the project service area for MRI services as exhibited by the historical procedure volumes of JCMC. This project is meant to improve access and decrease wait times for those seeking MRI services and, in turn, provide more timely results to allow patients to act accordingly.

2. People in Tennessee should have access to health care and the conditions to achieve optimal health.

Response:
Utilization data for 2015 shows that the project service area is just under the threshold for an additional MRI unit in the service area based on Question #4 of the HSDA's Standards and Criteria for MRI. In addition, JCMC is heavily utilized for MRI services, as described in previous sections of this application regarding utilization of current units. JCMC currently has wait times of several weeks for multiple types of MRI procedures. This project will improve access to these much needed MRI services by increasing MRI capacity at JCMC and reducing wait times for the patients of the service area.

3. Health resources in Tennessee, including health care, should be developed to address the health of people in Tennessee while encouraging economic efficiencies.

Response:
As demonstrated by the extensive utilization of MRI services in this project's service area as noted in previous sections of this application, a need exists for additional capacity to treat patients seeking MRI services. This project will have no negative effects on competing facilities and will be a valuable addition to the service area's healthcare resources. JCMC will be able to better accommodate the types of patients seeking the types of services in which JCMC is the only service area facility to provide, such as pediatric sedation.

4. People in Tennessee should have confidence that the quality of health care is continually monitored and standards are adhered to by providers.

Response:
Given the commitments of Mountain States Health Alliance and Johnson City Medical Center to the success of this project, the Agency and the community can be confident that the proposed project will meet and maintain stringent clinical standards.

5. The state should support the development, recruitment, and retention of a sufficient and quality health workforce.

Response:
This project will have minimal impact on the addition of positions to the workforce. However, JCMC will continue to identify opportunities to develop and retain its team members associated with MRI services to provide the highest quality of care for the complex procedures JCMC provides. JCMC will also continue to build on its relationships with local colleges and universities, as well as other Mountain States facilities, to recruit highly-talented and capable team members to staff its MRI services for years to come.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper that includes a copy of the publication as proof of the publication of the letter of intent.

Response:
The full page of the newspaper in which the notice of intent appeared, with mast and dateline intact, is attached.

NOTIFICATION REQUIREMENTS

(Applies only to Nonresidential Substitution-Based Treatment Centers for Opiate Addiction)

Note that T.C.A. §68-11-1607(c)(9)(A) states that "...Within ten (10) days of the filing of an application for a nonresidential substitution-based treatment center for opiate addiction with the agency, the applicant shall send a notice to the county mayor of the county in which the facility is proposed to be located, the state representative and senator representing the house district and senate district in which the facility is proposed to be located, and to the mayor of the municipality, if the facility is proposed to be located within the corporate boundaries of a municipality, by certified mail, return receipt requested, informing such officials that an application for a nonresidential substitution-based treatment center for opiate addiction has been filed with the agency by the applicant."

Failure to provide the notifications described above within the required statutory timeframe will result in the voiding of the CON application.

Please provide documentation of these notifications.

Response:
Not applicable.

DEVELOPMENT SCHEDULE

T.C.A. §68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**
2. **If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph,* please state below any request for an extended schedule and document the "good cause" for such an extension.**

PROJECT COMPLETION FORECAST CHART

Assuming the Certificate of Need (CON) approval becomes the final HSDA action on the date listed in Item 1. below, indicate the number of days from the HSDA decision date to each phase of the completion forecast.

Phase	Days Required	Anticipated Date [Month/Year]
1. Initial HSDA decision date		**December 2016****
2. Architectural and engineering contract signed	complete	**June 2016**
3. Construction documents approved by the Tennessee Department of Health	30	**January 2017**
4. Construction contract signed	30	**January 2017**
5. Building permit secured	60	**February 2017**
6. Site preparation completed	90	**March 2017**
7. Building construction commenced	120	**April 2017**
8. Construction 40% complete	180	**June 2017**
9. Construction 80% complete	210	**July 2017**
10. Construction 100% complete (approved for occupancy)	240	**August 2017**
11. *Issuance of License	250	**August 2017**
12. *Issuance of Service	250	**August 2017**
13. Final Architectural Certification of Payment	270	**September 2017**
14. Final Project Report Form submitted (Form HR0055)	270	**September 2017**

****NOTE:** Anticipated completion dates in the chart above are based on the assumption that the request for Consent Calendar will be approved.

***For projects that *DO NOT* involve construction or renovation, complete Items 11 & 12 only.**

NOTE: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date

Mountain States Health Alliance
Johnson City Medical Center MRI Project
Certificate of Need Application Attachments

Attachment A-4A: Corporate Charter and Certificate of Corporate Existence

Attachment A-4B: Organizational Structure

Attachment A-6A: Title / Deed / Legal Interest in Site

Attachment A-6B-1 & A-6B-2: Plot Plan & Floor Plans

Attachment A-13B: MRI Quote from Equipment Vendor

Attachment A-13F: FDA Approval Documentation

Attachment B-Need-3: Service Area Maps

Attachment B-Need-4: Service Area Demographic Snapshot

Attachment B-Economic Feasibility-1: Construction Costs Documentation

Attachment B-Economic Feasibility-2: Letter of Available Funds

Attachment B-Economic Feasibility-6: Unaudited Financial Statements (FY2016) and Most Recent Audited Statements (FY2014 and FY2015) for Mountain States Health Alliance

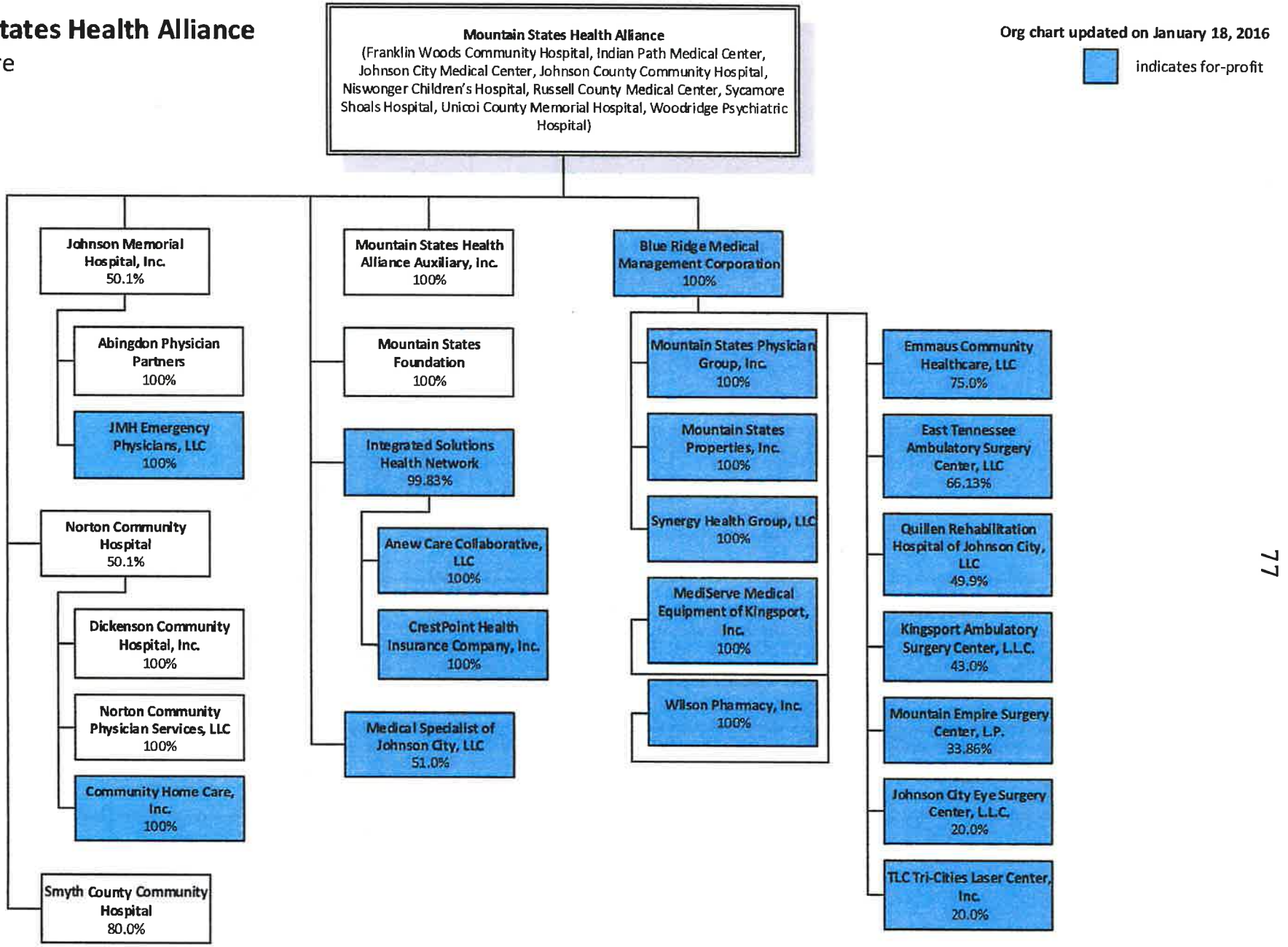
Attachment B-Contribution to the Orderly Development of Health Care-4A & 4B: Hospital License and Accreditation Report Summary Statement

Attachment B-Proof of Publication: Publication of Intent, Johnson City Press

Attachment: Affidavit for Application

Mountain States Health Alliance

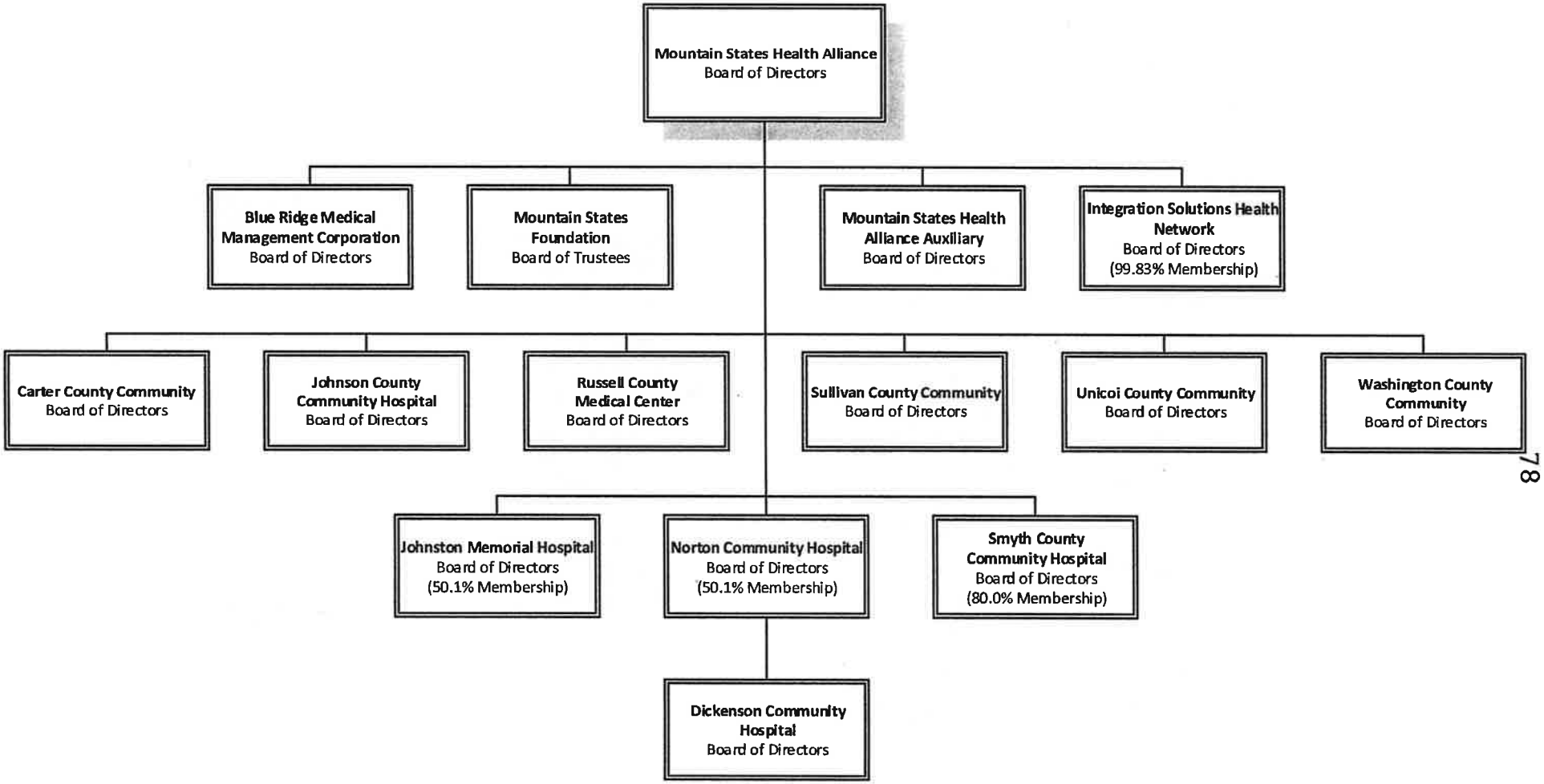
Legal Structure



Mountain States Health Alliance

Governance Structure

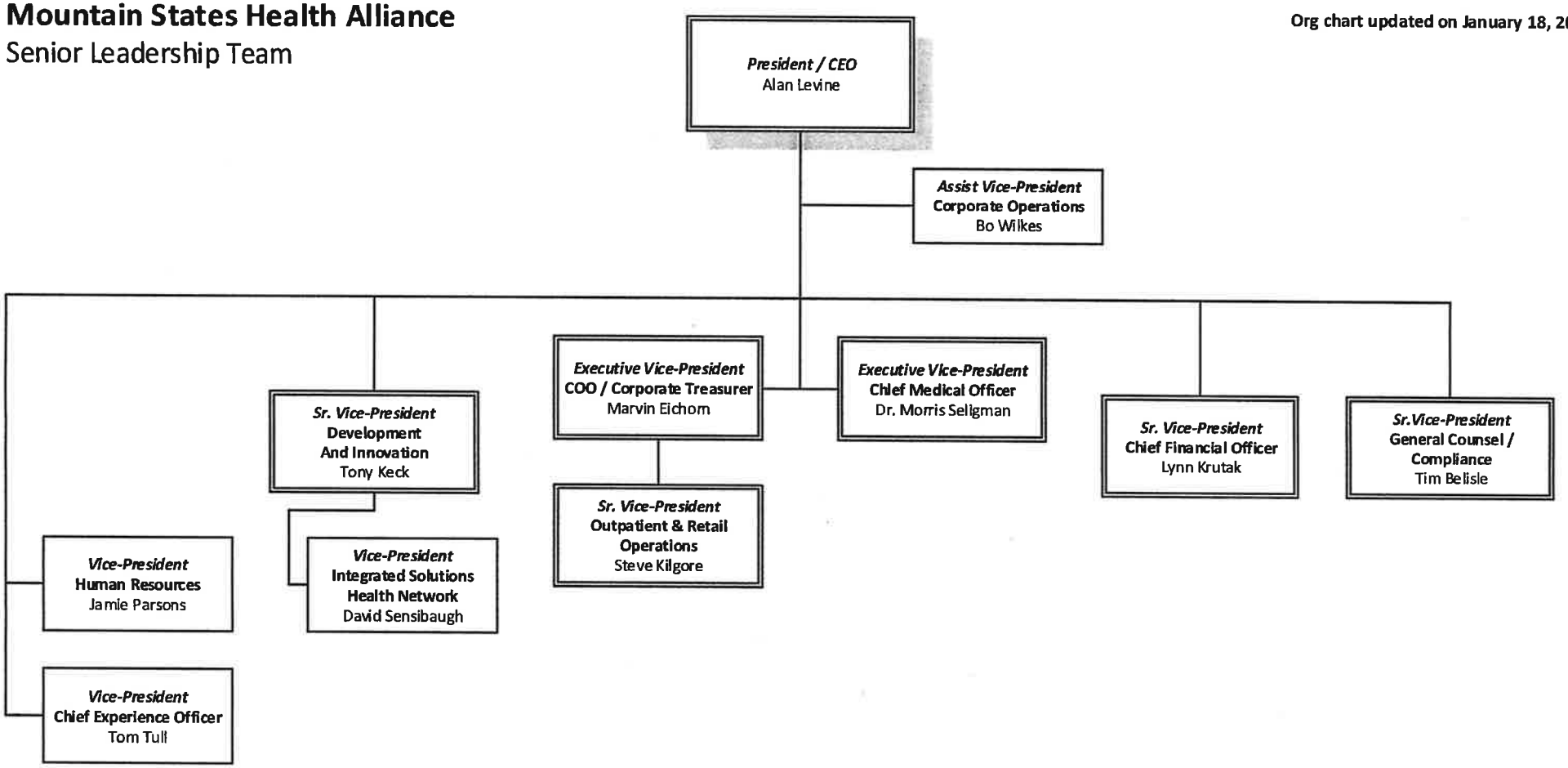
Org chart updated on January 18, 2016



Mountain States Health Alliance

Senior Leadership Team

Org chart updated on January 18, 2016

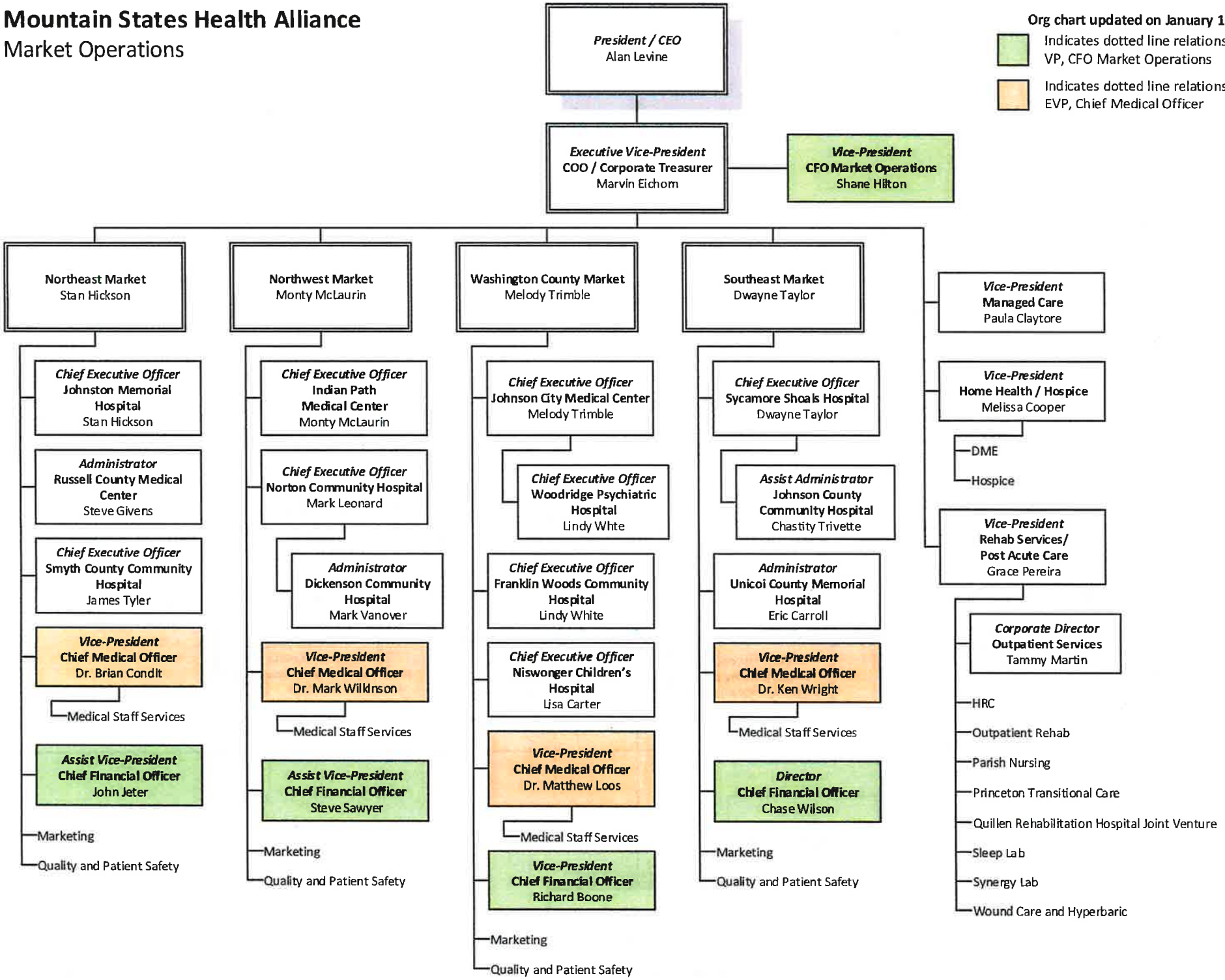


Mountain States Health Alliance
Market Operations

Org chart updated on January 18, 2016

Indicates dotted line relationship to VP, CFO Market Operations

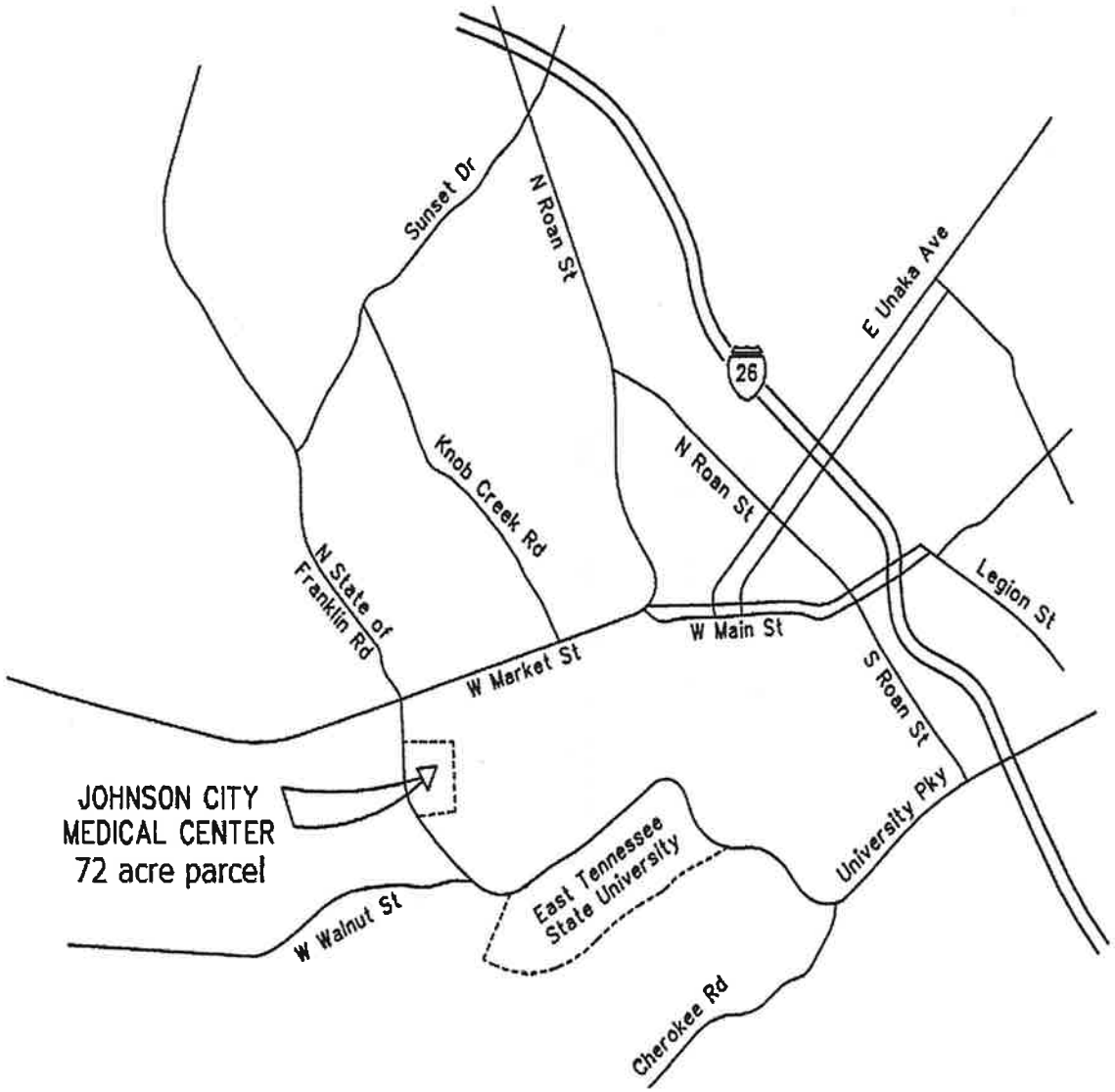
Indicates dotted line relationship to EVP, Chief Medical Officer

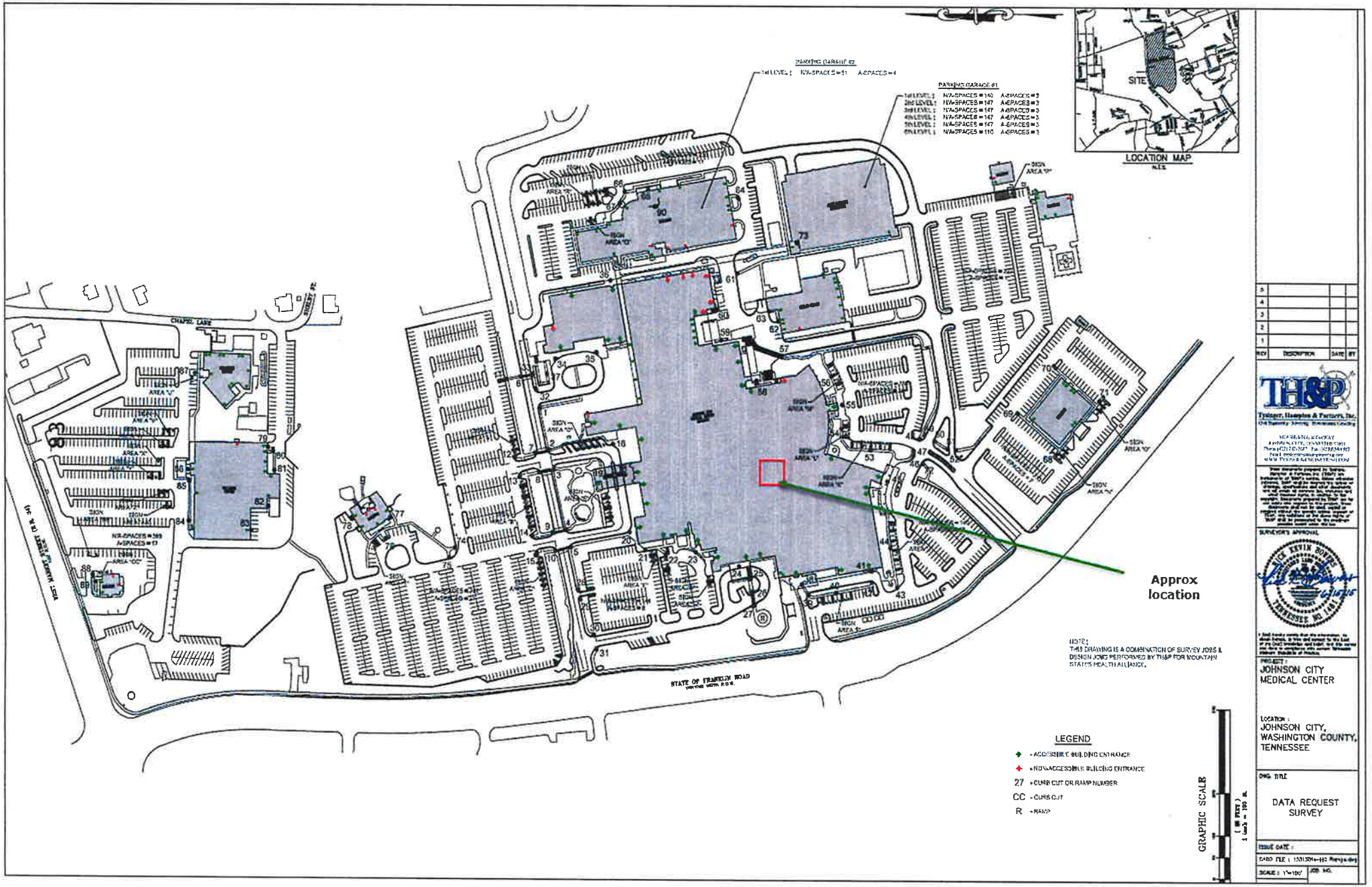


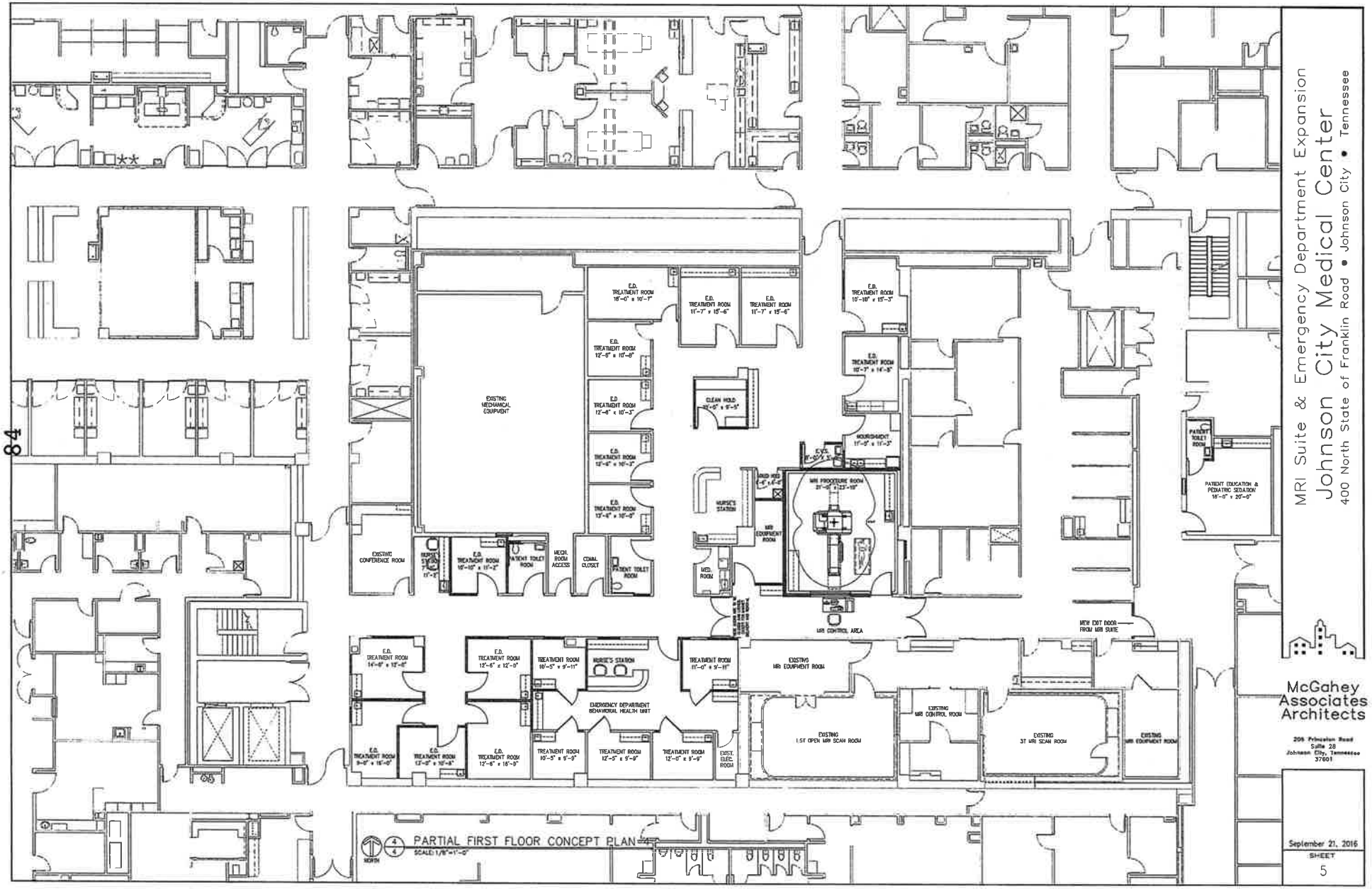
ATTACHMENT A-6B-1 & A-6B-2

1. Plot Plan
2. Floor Plans

VICINITY MAP




PARKING GARAGE #2
1st LEVEL : NA-SPACES = 51 A-SPACES = 4
PARKING GARAGE #1
1st LEVEL : NA-SPACES = 160 A-SPACES = 3
2nd LEVEL : NA-SPACES = 147 A-SPACES = 3
3rd LEVEL : NA-SPACES = 147 A-SPACES = 3
4th LEVEL : NA-SPACES = 147 A-SPACES = 3
5th LEVEL : NA-SPACES = 147 A-SPACES = 3
6th LEVEL : NA-SPACES = 110 A-SPACES = 3
SITE
LOCATION MAP
N.T.S.
CHAPEL LANE
WEST MARKET STREET (U.S. 11E)
STATE OF FRANKLIN ROAD
Approx location
NOTE:
THIS DRAWING IS A COMBINATION OF SURVEY JOBS & DESIGN JOBS PERFORMED BY TH&P FOR MOUNTAIN STATES HEALTH ALLIANCE.
LEGEND
- ACCESSIBLE BUILDING ENTRANCE
- NON-ACCESSIBLE BUILDING ENTRANCE
27 - CURB CUT OR RAMP NUMBER
CC - CURB CUT
R - RAMP
GRAPHIC SCALE
(IN FEET)
1 inch = 100 ft.
NO. DESCRIPTION DATE BY
TH&P
Tysinger, Hampton & Partners, Inc.
SURVEYOR'S APPROVAL
PROJECT :
JOHNSON CITY MEDICAL CENTER
LOCATION :
JOHNSON CITY, WASHINGTON COUNTY, TENNESSEE
DWG. TITLE
DATA REQUEST SURVEY
ISSUE DATE :
CADD FILE : 1531SDH-H2 Ramps.dwg
SCALE : 1"=100'
JOB NO.



MRI Suite & Emergency Department Expansion

Johnson City Medical Center

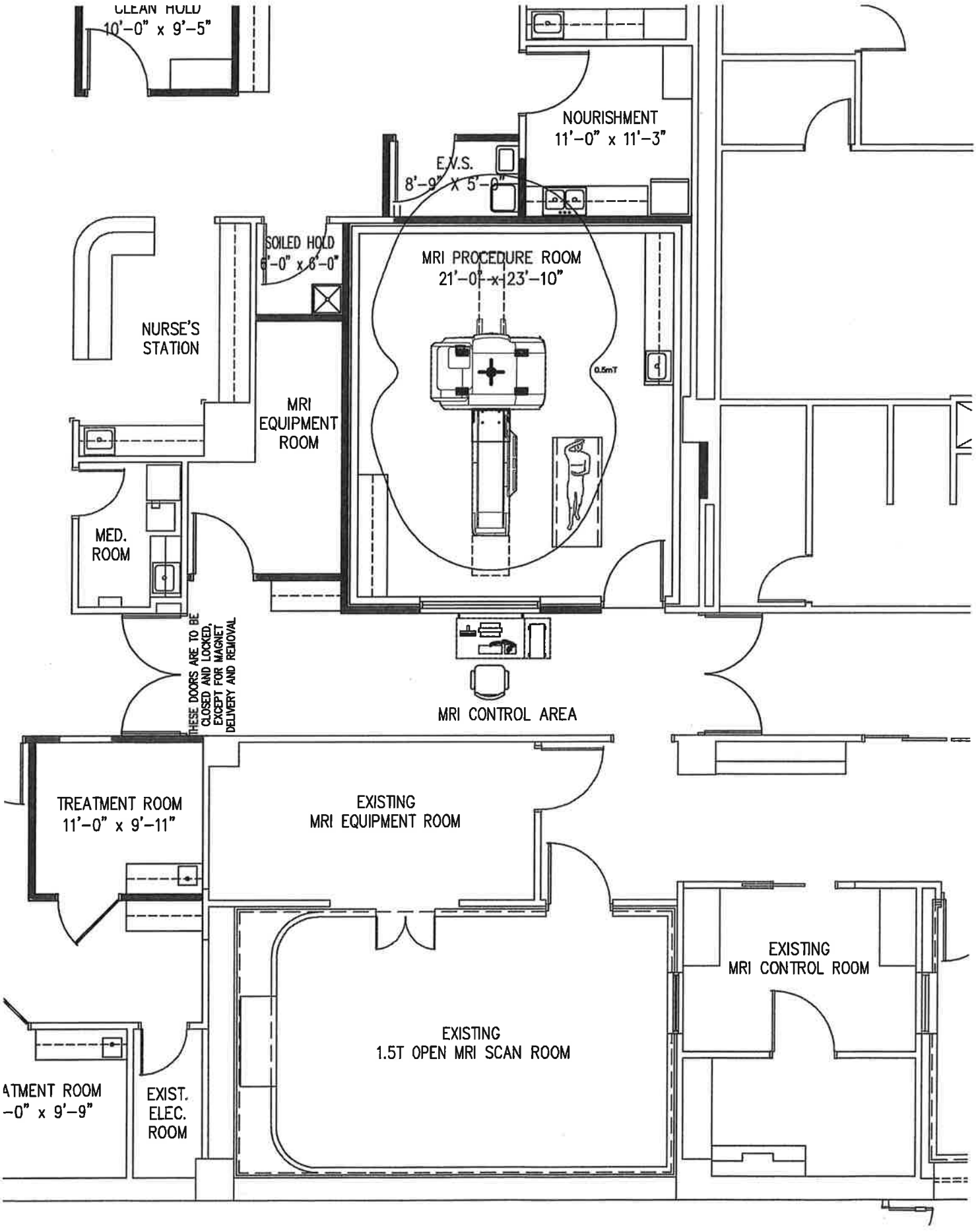
400 North State of Franklin Road • Johnson City • Tennessee

McGahey Associates Architects

209 Princeton Road
Suite 28
Johnson City, Tennessee
37601

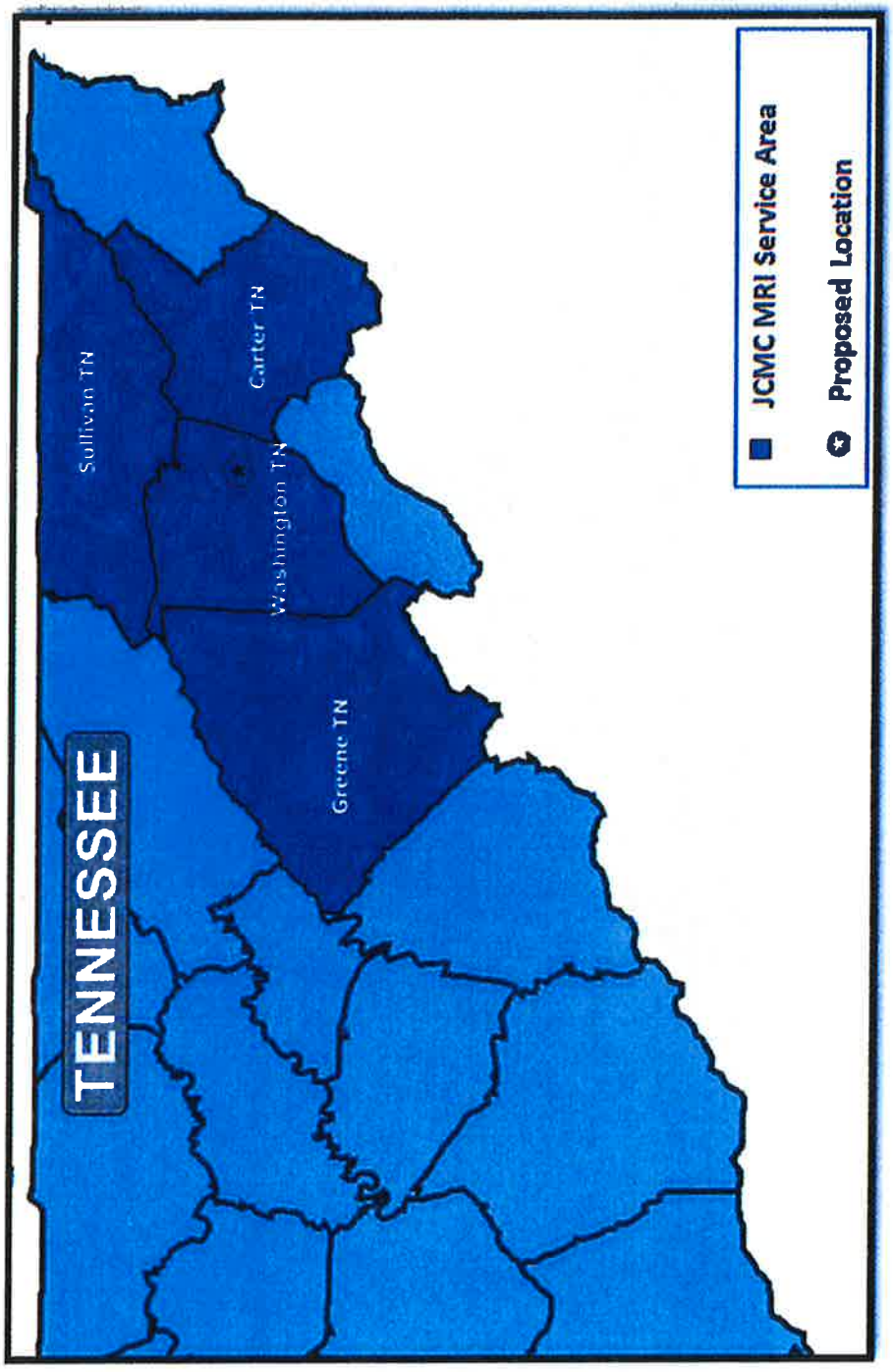
September 21, 2016

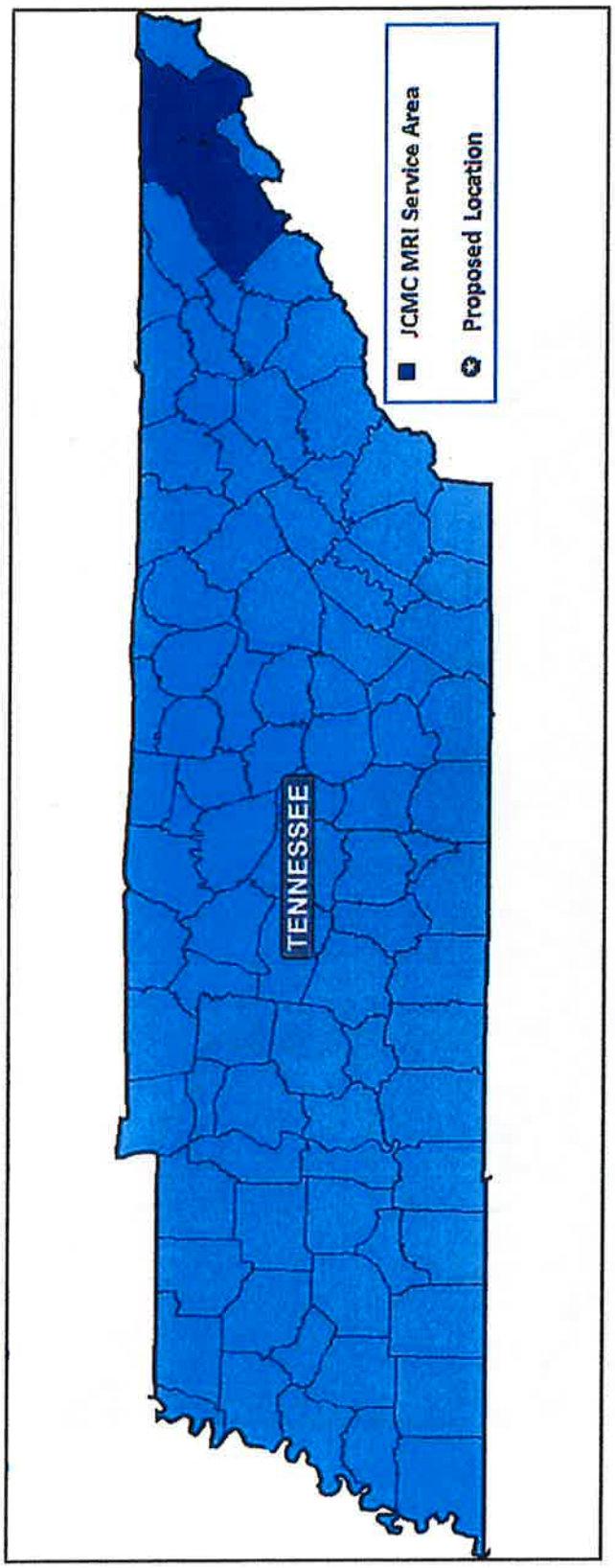
SHEET
5


CLEAN HOLD
10'-0" x 9'-5"
NOURISHMENT
11'-0" x 11'-3"
E.V.S.
8'-9" X 5'-0"
SOILED HOLD
6'-0" x 6'-0"
MRI PROCEDURE ROOM
21'-0" x 23'-10"
NURSE'S STATION
MRI EQUIPMENT ROOM
0.5mT
MED. ROOM
THESE DOORS ARE TO BE CLOSED AND LOCKED, EXCEPT FOR MAGNET DELIVERY AND REMOVAL
MRI CONTROL AREA
TREATMENT ROOM
11'-0" x 9'-11"
EXISTING
MRI EQUIPMENT ROOM
EXISTING
MRI CONTROL ROOM
EXISTING
1.5T OPEN MRI SCAN ROOM
ATMENT ROOM
-0" x 9'-9"
EXIST.
ELEC.
ROOM

ATTACHMENT B-NEED-3

Service Area Maps


TENNESSEE
Sullivan TN
Carter TN
Washington TN
Greene TN
JCMC MRI Service Area
Proposed Location


JCMC MRI Service Area
Proposed Location
TENNESSEE

ATTACHMENT B-NEED-4

Service Area Demographic Snapshot

Sg2 MARKET SNAPSHOT

health care intelligence

Mountain State Health Alliance

JCMC MRI Proposed Project Service Area

*Service Area includes: Carter, Greene, Sullivan, and Washington Counties (TN)

Population and Gender	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
Female	210,027	51.3%	213,760	51.3%	1.8%	50.8%
Male	199,463	48.7%	203,193	48.7%	1.9%	49.3%
Grand Total	409,490	100.0%	416,953	100.0%	1.8%	100.0%

Age Groups	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
00-17	79,862	19.5%	78,008	18.7%	(2.3)%	23.0%
18-44	133,436	32.6%	133,016	31.9%	(0.3)%	35.8%
45-64	114,723	28.0%	112,844	27.1%	(1.6)%	26.1%
65-UP	81,469	19.9%	93,085	22.3%	14.3%	15.1%
Total	409,490	100.0%	416,953	100.0%	1.8%	100.0%

Ethnicity/Race	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change
American Indian / AK Native	1,202	0.3%	1,327	0.3%	10.4%
Asian	3,594	0.9%	4,314	1.0%	20.0%
Black / African American	11,826	2.9%	13,229	3.2%	11.9%
Multiple Races	6,542	1.6%	7,415	1.8%	13.3%
Native HI/PI	137	0.0%	172	0.0%	25.5%
Other	4,413	1.1%	5,091	1.2%	15.4%
White	381,776	93.2%	385,405	92.4%	1.0%
Grand Total	409,490	100.0%	416,953	100.0%	1.8%

Household Income	Market 2016 Households	Market 2016 % of Total	Market 2021 Households	Market 2021 % of Total	Market Households % Change	National 2016 % of Total
<$15K	29,927	17.4%	28,569	16.2%	(4.5)%	12.3%
$15-25K	24,650	14.3%	24,157	13.7%	(2.0)%	10.4%
$25-50K	49,670	28.8%	50,160	28.5%	1.0%	23.4%
$50-75K	29,988	17.4%	30,193	17.2%	0.7%	17.6%
$75-100K	15,439	9.0%	16,596	9.4%	7.5%	12.0%
$100K-200K	19,140	11.1%	21,910	12.4%	14.5%	18.6%
>$200K	3,467	2.0%	4,439	2.5%	28.0%	5.7%
Total	172,281	100.0%	176,024	100.0%	2.2%	100.0%

Education Level**	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
Less than High School	19,267	6.6%	20,031	6.6%	4.0%	5.8%
Some High School	24,311	8.3%	25,284	8.4%	4.0%	7.8%
High School Degree	104,976	36.0%	108,889	36.0%	3.7%	27.9%
Some College/Assoc. Degree	79,226	27.1%	81,859	27.1%	3.3%	31.1%
Bachelor's Degree or Greater	64,155	22.0%	66,189	21.9%	3.2%	27.4%
Total	291,935	100.0%	302,252	100.0%	3.5%	100.0%

**Excludes population age <25

ATTACHMENTS B-ECONOMIC FEASIBILITY-1

Architect Documentation for Support of Estimated Construction

McGahey Associates, Architects
206 Princeton Road, Suite 28
Johnson City, Tennessee 37601
phone: 423-282-4414
fax: 423-282-6691

October 12, 2016

Ms. Melanie Hill
Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street Nashville, TN 37243

RE: Johnson City Medical Center MRI Project
Johnson City, TN

Dear Ms. Hill:

This letter will denote that we have reviewed the construction costs indicated as $212,500, as well as approximately $20,000 in architectural and engineering fees, for the referenced project and find the costs to be reasonable for the described scope of work.

Sincerely,
McGahey Associates, Architects

Timothy J. McGahey, AIA
Principal

ATTACHMENTS B-ECONOMIC FEASIBILITY-2

Letter of Available Funds

JOHNSON CITY MEDICAL CENTER
Mountain States Health Alliance

400 North State of Franklin Road • Johnson City, TN 37604
423-431-6111

October 12, 2016

Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Dear Agency Members:

This letter is to certify that Johnson City Medical Center has sufficient cash of $2,023,108 to fund the project, as described in the certificate of need application, for the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to its main campus located at 400 N. State of Franklin Road, Johnson City (Washington County), TN 37604.

Sincerely,

Richard Boone
Vice President / CFO, Johnson City Medical Center

ATTACHMENT B-ECONOMIC FEASIBILITY-6

Balance Sheet and Income Statement for Mountain States Health Alliance

1. **Most Recent Reporting Period (FY2016)**
2. **Most Recent Audited Statements (FY2015 and FY2014)**

Mountain States Health Alliance
Consolidated Balance Sheet
At June 30, 2016

	Consolidated	Eliminations	JCMC	FWCH	NSH	WOOD	IPMC	SSH	UC	JCCH
ASSETS										
CURRENT ASSETS										
Cash and Cash Equivalents	89,753,181	0	75,429	289,120	(238,975)	250	38,790	27,470	12,033	5,502
Current Portion AWUIL	25,771,897	0	0	0	0	0	0	0	0	0
Accounts Receivable (Net)	155,216,936	0	64,266,491	11,617,355	0	2,703,901	11,396,654	6,104,999	1,968,246	645,115
Other Receivables	32,291,409	(6,433,000)	3,054,810	208,931	0	1,251,914	509,608	381,053	216,379	104,612
Due From Affiliates	1,435	(26,748,503)	1,512,296	42,752	(0)	1,641	270,591	281,065	28,432	13,864
Due From Third Party Payors	(0)	1,670,475	(4,642,925)	(40,948)	0	550,148	142,835	(45,122)	(24,510)	(1,415,085)
Inventories	26,630,407	0	10,822,260	1,925,145	0	149,915	2,411,748	1,286,256	307,763	106,827
Prepaid Expense	8,267,700	0	1,992,014	469,029	0	32,658	376,841	164,781	70,670	21,738
	337,932,964	(31,511,028)	77,080,395	14,511,385	(238,975)	4,690,427	15,147,067	8,200,502	2,579,013	(517,426)
ASSETS WHOSE USE IS LIMITED	16,937,434	0	0	0	0	0	0	0	0	0
OTHER INVESTMENTS	608,885,873	0	0	0	0	0	0	0	0	0
PROPERTY, PLANT AND EQUIPMENT										
Land, Buildings and Equipment	1,711,449,705	0	576,881,710	144,523,845	7,330,172	13,069,516	111,922,675	48,375,381	5,849,838	10,090,351
Less Allowances for Depreciation	880,624,466	0	350,608,607	46,995,088	5,303,766	6,377,265	71,383,956	29,280,429	2,253,184	6,283,410
	830,825,239	0	226,273,103	97,528,757	2,026,406	6,692,251	40,538,720	19,094,953	3,596,654	3,806,940
OTHER ASSETS										
Pledges Receivable	2,957,802	0	0	0	0	0	0	0	0	0
Long Term Compensation Investment	26,331,578	0	5,000	0	0	0	0	0	0	0
Investments in Unconsolidated Subsidiaries	7,249,898	0	0	0	0	0	0	0	0	0
Land / Equipment Held for Resale	7,495,973	0	4,574,324	0	0	0	0	0	0	0
Assets Held for Expansion	11,361,384	0	936,711	0	0	0	0	0	1,595,597	0
Investments in Subsidiaries	0	(427,422,063)	0	0	0	0	0	0	0	0
Goodwill	156,565,204	0	13,141,003	0	0	0	(1,442,410)	0	0	0
Deferred Charges and Other	22,023,693	0	153,078	122,574	0	0	0	865	0	0
	233,985,533	(427,422,063)	18,810,115	122,574	0	0	(1,442,410)	865	1,595,597	0
TOTAL ASSETS	2,028,567,044	(458,933,091)	322,163,613	112,162,716	1,787,432	11,382,678	54,243,377	27,296,319	7,771,264	3,289,514
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts Payable and Accrued Expense	91,094,015	0	27,064,116	4,206,864	0	899,000	4,024,590	2,023,118	921,088	402,095
Accrued Salaries, Benefits, and PTO	68,722,074	0	16,188,151	2,648,770	0	930,298	3,860,409	2,205,132	738,981	515,033
Claims Payable	4,414,252	0	0	0	0	0	0	0	0	0
Accrued Interest	13,585,982	0	4,739,460	1,804,221	0	28,676	445,963	195,990	0	3,272
Due to Affiliates	0	(26,748,503)	1,248,065	67,025	(0)	112,366	652,724	182,247	32,161	507
Due to Third Party Payors	9,149,508	1,670,475	1,868,878	1,437	0	0	376,358	525,221	0	22,115
Call Option Liability	0	0	0	0	0	0	0	0	0	0
Current Portion of Long Term Debt	23,382,270	(6,433,000)	152,400	533,400	0	0	0	0	0	0
	210,348,102	(31,511,028)	51,261,070	9,261,717	(0)	1,970,341	9,560,044	5,131,709	1,692,230	943,022
OTHER NON CURRENT LIABILITIES										
Long Term Compensation Payable	12,760,043	0	0	0	0	0	0	0	0	0
Long Term Debt	963,853,190	0	2,805,176	10,621,576	0	0	0	0	0	0
Estimated Fair Value of Interest Rate Swaps	4,482,751	0	0	0	0	0	0	0	0	0
Deferred Income	10,476,431	0	0	0	0	0	(0)	(0)	0	0
Professional Liability Self-Insurance and Other	18,293,608	0	2,808,627	280,158	(0)	102,506	584,038	253,805	32,727	61,772
	1,009,866,024	0	5,613,804	10,901,734	(0)	102,507	584,038	253,804	32,727	61,772
TOTAL LIABILITIES	1,220,214,126	(31,511,028)	56,874,873	20,163,451	(0)	2,072,847	10,144,082	5,385,513	1,724,957	1,004,794
NET ASSETS	607,047,362	(669,634,828)	265,288,740	91,999,265	1,787,432	9,309,831	44,099,295	21,910,806	6,046,307	2,284,720
NONCONTROLLING INTEREST IN SUBSIDIARIES	201,305,556	242,212,765	0	0	0	0	0	0	0	0
TOTAL LIABILITIES AND NET ASSETS	2,028,567,044	(458,933,091)	322,163,613	112,162,716	1,787,432	11,382,678	54,243,377	27,296,319	7,771,264	3,289,514

Mountain States Health Alliance
Consolidated Balance Sheet (cont'd)
At June 30, 2016

	JMH	NC	SC	RC	BR Cons	MSHH	MSHA Corp	ISHN	Foundation	Auxiliary
ASSETS										
CURRENT ASSETS										
Cash and Cash Equivalents	11,551,790	8,477,996	3,103,122	12,364	10,159,929	300	41,917,991	5,261,851	8,785,646	272,572
Current Portion AWUIL	0	0	0	0	0	0	25,771,897	0	0	0
Accounts Receivable (Net)	21,848,424	10,690,629	6,560,667	3,869,751	10,478,717	3,065,986	0	0	0	0
Other Receivables	1,131,132	1,281,864	321,303	72,911	6,843,550	304,995	13,566,868	7,466,672	1,886,369	121,438
Due From Affiliates	0	(0)	1,639,690	100,374	(0)	4,347	8,398,053	14,191,916	214,961	49,957
Due From Third Party Payors	1,986,912	737,982	1,302,637	(222,398)	0	0	0	0	0	0
Inventories	3,177,563	1,586,395	859,623	320,567	3,088,890	0	0	0	0	587,435
Prepaid Expense	698,614	330,304	221,229	103,255	505,546	72,253	3,145,274	40,845	15,110	7,540
	40,394,435	23,105,169	14,008,272	4,256,823	31,076,632	3,447,881	92,800,083	26,961,283	10,902,086	1,038,941
ASSETS WHOSE USE IS LIMITED	0	(0)	163	0	990	0	14,894,426	2,041,854	0	0
OTHER INVESTMENTS	170,814,547	26,107,697	25,042,606	0	77,455,251	0	300,602,662	6,776,836	1,598,465	487,810
PROPERTY, PLANT AND EQUIPMENT										
Land, Buildings and Equipment	267,722,005	108,400,563	119,827,857	27,417,811	150,190,675	3,028,552	115,167,338	736,290	28,686	886,441
Less Allowances for Depreciation	113,486,729	56,608,869	55,795,012	14,685,852	65,755,500	2,132,491	52,475,848	570,403	12,386	615,672
	154,235,276	51,791,694	64,032,846	12,731,959	84,435,175	896,060	62,691,490	165,886	16,300	270,769
OTHER ASSETS										
Pledges Receivable	0	0	0	0	0	0	0	0	2,957,802	0
Long Term Compensation Investment	0	0	0	0	10,677,381	0	15,649,198	0	0	0
Investments in Unconsolidated Subsidiaries	142,230	0	60,396	0	8,001,492	0	(954,220)	0	0	0
Land / Equipment Held for Resale	0	0	0	0	57,635	0	2,864,014	0	0	0
Assets Held for Expansion	1,902,206	0	0	0	2,981,309	0	3,945,562	0	0	0
Investments in Subsidiaries	0	0	668,615	0	0	0	426,753,448	0	0	0
Goodwill	69,828	0	0	0	11,470,191	0	133,326,592	0	0	0
Deferred Charges and Other	201,445	202,053	126,855	0	1,259,636	452,246	19,213,713	164,666	125,000	1,562
	2,315,709	202,053	855,866	0	34,447,644	452,246	600,798,306	164,666	3,082,802	1,562
TOTAL ASSETS	367,759,967	101,206,612	103,939,753	16,988,782	227,415,692	4,796,188	1,071,786,967	36,110,526	15,599,653	1,799,082
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts Payable and Accrued Expense	7,276,126	3,998,774	2,399,721	1,370,913	10,149,066	776,594	22,821,022	2,500,571	135,459	124,897
Accrued Salaries, Benefits, and PTO	7,181,031	4,381,516	1,851,023	1,029,500	17,767,202	1,173,533	7,825,774	417,722	0	8,000
Claims Payable	0	0	0	0	0	0	0	4,414,252	0	0
Accrued Interest	20,437	16,402	13,271	60,156	40,114	6,925	6,211,095	0	0	0
Due to Affiliates	755,537	261,661	1,483,080	203,501	4,619,554	87,372	1,444,335	14,888,416	500,000	9,953
Due to Third Party Payors	2,261,850	1,059,744	1,289,874	0	73,556	0	0	0	0	0
Call Option Liability	0	0	0	0	0	0	0	0	0	0
Current Portion of Long Term Debt	1,188,862	126,252	153,576	0	188,408	0	21,039,372	6,433,000	0	0
	18,683,844	9,844,349	7,190,545	2,664,069	32,837,900	2,044,423	59,341,598	28,653,962	635,459	142,850
OTHER NON CURRENT LIABILITIES										
Long Term Compensation Payable	0	900	0	0	10,677,381	0	2,081,762	0	0	0
Long Term Debt	17,348,392	20,859,248	15,678,652	0	15,163,346	0	881,376,801	0	0	0
Estimated Fair Value of Interest Rate Swaps	0	0	0	0	0	0	4,482,751	0	0	0
Deferred Income	1,831,821	75,044	799,176	(0)	68,708	0	7,666,818	0	34,865	0
Professional Liability Self-Insurance and Other	890,598	9,009,551	398,764	202,931	1,397,454	600	2,270,078	0	0	0
	20,070,811	29,944,742	16,876,592	202,931	27,306,889	600	897,878,210	0	34,865	0
TOTAL LIABILITIES	38,754,654	39,789,091	24,067,136	2,867,000	60,144,788	2,045,023	957,219,807	28,653,962	670,324	142,850
NET ASSETS	328,336,698	61,417,521	79,872,616	14,121,783	163,846,727	2,751,165	159,567,160	7,456,565	14,929,329	1,656,232
NONCONTROLLING INTEREST IN SUBSIDIARIES	668,615	0	0	0	3,424,176	0	(45,000,000)	0	0	0
TOTAL LIABILITIES AND NET ASSETS	367,759,967	101,206,612	103,939,753	16,988,782	227,415,692	4,796,188	1,071,786,967	36,110,526	15,599,653	1,799,082

Mountain States Health Alliance

Consolidated Statement of Revenue and Expense

For the Twelve Months Ended June 30, 2016

	Consolidated	Eliminations	JCMC	FWCH	NSH	WOOD	IPMC	SSH	UC	JCCH
Patient Revenue										
Inpatient Revenue	2,658,938,817	0	1,498,056,993	191,823,888	0	70,827,300	272,967,552	114,463,618	17,972,614	287,379
Outpatient Revenue	2,893,529,025	(249,572)	996,880,313	257,619,520	0	508,954	259,577,113	157,380,834	40,853,222	27,140,088
Total Gross Patient Revenue	5,552,467,843	(249,572)	2,494,937,306	449,443,408	0	71,336,254	532,544,665	271,844,452	58,825,836	27,427,467
Deductions from Revenue										
Contractual Adjustments	4,291,791,047	864,343	1,988,070,033	358,698,136	0	38,028,137	430,027,713	217,596,954	46,052,192	18,227,943
Charity	78,305,882	0	36,142,393	3,767,246	0	13,670,109	4,258,430	2,384,803	24,620	172,564
Contra Revenue - Charity	116,013,588	0	43,175,420	8,224,542	0	892,921	9,518,578	7,185,706	19,870	1,120,650
Provision for Bad Debt	21,692,286	0	8,438,422	1,335,240	0	133,986	1,793,104	1,355,212	1,217,742	324,791
Total Deductions	4,507,802,804	864,343	2,075,826,269	372,025,164	0	52,725,152	445,597,825	228,522,675	47,314,425	19,845,947
Net Patient Service Revenue	1,044,665,039	(1,113,915)	419,111,037	77,418,244	0	18,611,102	86,946,840	43,321,777	11,511,411	7,581,521
Premium Revenue	0	0	0	0	0	0	0	0	0	0
Other Operating Revenue	45,430,087	(66,473,533)	5,816,283	870,910	0	2,860,644	2,171,927	1,588,060	709,179	116,160
Total Other Operating Revenue	45,430,087	(66,473,533)	5,816,283	870,910	0	2,860,644	2,171,927	1,588,060	709,179	116,160
Total Operating Revenue	1,090,095,125	(67,587,448)	424,927,320	78,289,153	0	21,471,746	89,118,767	44,909,837	12,220,591	7,697,680
Operating Expense										
Salaries	352,320,910	(35,150)	121,563,162	24,649,642	0	8,843,445	31,698,263	18,121,947	7,769,094	3,780,554
Provider Salaries	84,042,825	302	41	0	0	0	122,090	0	0	535,691
Contract Labor	5,774,484	(4,052,532)	3,869,080	653,684	0	185,842	550,038	516,347	162,889	35,395
Employee Benefits	101,536,498	(2,330,716)	31,987,415	6,278,219	0	2,312,055	8,174,872	4,893,285	2,062,312	1,123,183
Fees	111,742,304	(57,148,391)	64,992,455	7,209,561	0	4,801,477	18,281,646	4,731,405	2,694,851	1,406,384
Supplies	179,141,486	(144,711)	98,071,443	11,648,907	0	1,030,036	15,375,476	6,381,333	1,423,610	558,516
Utilities	16,180,310	(3,524)	5,225,468	1,273,579	0	156,848	1,277,098	717,470	451,283	114,969
Other Expense	85,051,708	(3,745,901)	24,417,255	4,139,296	0	720,975	6,912,948	3,287,124	1,639,233	689,933
Medical Costs	(761,658)	0	0	0	0	0	0	0	0	0
Depreciation	66,383,995	0	19,467,655	5,429,557	0	599,103	3,577,097	1,676,770	620,192	370,935
Amortization	1,516,989	0	47,587	7,228	0	0	0	0	0	0
Interest & Taxes	43,450,701	0	16,891,984	4,049,186	0	623,295	1,451,301	496,417	28	25,875
Consolidation Allocation	(1)	0	5,844,044	1,237,857	0	351,694	1,501,005	825,655	308,732	199,560
Total Operating Expense	1,046,380,551	(67,460,623)	392,377,591	66,576,717	0	19,624,771	88,921,833	41,647,753	17,132,223	8,840,994
Net Operating Income	43,714,574	(126,825)	32,549,729	11,712,436	0	1,846,976	196,933	3,262,084	(4,911,632)	(1,143,314)
Non Operating Income / (Expense)	2,991,429	(9,641,629)	2,078,418	119,379	0	4,926	50,508	26,832	(19,395)	1,697
Total Revenue Over Expense	46,706,003	(9,768,454)	34,628,146	11,831,816	0	1,851,901	247,441	3,288,916	(4,931,027)	(1,141,618)
Change in Fair Value of Derivatives	(2,286,838)	0	0	0	0	0	0	0	0	0
Net Unrealized Gain / (Loss) on Investments	(17,511,298)	0	0	0	0	0	0	0	0	0
Cumulative Effect of Change in Accounting Principle	0	0	0	0	0	0	0	0	0	0
Total Increase in Unrestricted Net Assets	26,907,868	(9,768,454)	34,628,146	11,831,816	0	1,851,901	247,441	3,288,916	(4,931,027)	(1,141,618)
EBITDA	160,884,251	(9,768,454)	71,035,373	21,317,786	0	3,074,299	5,275,839	5,462,103	(4,310,807)	(744,808)

Mountain States Health Alliance

Consolidated Statement of Revenue and Expense (cont'd)

For the Twelve Months Ended June 30, 2016

	JMH	NC	SC	RC	BR Cons	Home Care	MSHA Corp	ISHN	Foundation	Auxiliary
Patient Revenue										
Inpatient Revenue	293,445,373	95,260,948	61,042,780	42,790,373	0	0	0	0	0	0
Outpatient Revenue	498,105,345	198,564,709	129,426,662	56,048,645	250,836,720	20,836,472	0	0	0	0
Total Gross Patient Revenue	791,550,718	293,825,657	190,469,441	98,839,018	250,836,720	20,836,472	0	0	0	0
Deductions from Revenue										
Contractual Adjustments	604,060,535	208,362,136	138,803,362	73,342,029	163,866,766	5,790,770	0	0	0	0
Charity	9,248,943	4,342,296	1,870,143	762,371	1,585,770	76,194	0	0	0	0
Contra Revenue - Charity	19,748,755	9,391,938	4,609,488	4,659,363	7,334,831	131,527	0	0	0	0
Provision for Bad Debt	1,878,609	1,677,154	684,546	806,954	1,576,742	469,784	0	0	0	0
Total Deductions	634,936,842	223,773,524	145,967,539	79,570,716	174,364,109	6,468,275	0	0	0	0
Net Patient Service Revenue	156,613,876	70,052,134	44,501,902	19,268,302	76,472,612	14,368,197	0	0	0	0
Premium Revenue	0	0	0	0	0	0	0	0	0	0
Other Operating Revenue	4,931,663	2,370,203	1,903,469	743,480	75,705,755	62,791	2,531,516	8,832,939	0	688,641
Total Other Operating Revenue	4,931,663	2,370,203	1,903,469	743,480	75,705,755	62,791	2,531,516	8,832,939	0	688,641
Total Operating Revenue	161,545,539	72,422,337	46,405,371	20,011,782	152,178,367	14,430,988	2,531,516	8,832,939	0	688,641
Operating Expense										
Salaries	41,757,192	24,917,064	17,584,849	6,569,097	30,632,794	9,711,452	(42,931)	2,544,809	0	255,625
Provider Salaries	9,596,918	7,415,200	268,638	59,679	66,044,164	103	0	0	0	0
Contract Labor	1,058,099	757,057	227,782	109,725	650,452	71,542	(0)	975,492	0	3,592
Employee Benefits	12,763,927	8,693,262	4,474,774	2,422,667	14,405,060	2,457,455	1,379,554	401,433	0	37,742
Fees	23,299,527	8,336,302	9,489,476	5,380,755	7,254,810	1,085,729	6,246,475	3,652,990	0	26,850
Supplies	24,433,893	6,891,194	5,555,227	1,727,495	6,436,409	723,940	(1,090,129)	106,030	0	12,818
Utilities	2,023,038	1,235,275	970,620	494,467	1,677,156	45,809	494,450	26,305	0	0
Other Expense	11,841,821	6,220,896	4,881,615	2,060,822	11,543,361	1,014,244	8,978,608	403,585	0	45,895
Medical Costs	0	0	0	0	0	0	0	(761,658)	0	0
Depreciation	12,133,929	4,655,819	4,343,920	1,715,992	5,757,915	142,528	5,776,411	67,677	0	48,495
Amortization	18,770	7,914	12,687	0	73,569	82,023	1,257,336	8,000	0	1,875
Interest & Taxes	257,212	265,868	180,471	689,712	999,752	22,471	17,424,161	72,967	0	0
Consolidation Allocation	3,241,065	1,687,928	886,824	386,315	(815,529)	216,280	(15,966,028)	94,596	0	0
Total Operating Expense	142,425,391	71,083,778	48,876,883	23,616,724	144,659,914	15,573,576	24,457,908	7,592,226	0	432,892
Net Operating Income	19,120,149	1,338,558	(2,471,512)	(3,604,942)	7,518,453	(1,142,588)	(21,926,392)	1,240,712	0	255,750
Non Operating Income / (Expense)	3,723,488	829,977	1,214,048	12,727	6,421,851	(12,161)	4,400,361	(6,897,855)	770,450	(92,192)
Total Revenue Over Expense	22,843,637	2,168,535	(1,257,464)	(3,592,215)	13,940,303	(1,154,749)	(17,526,031)	(5,657,143)	770,450	163,558
Change in Fair Value of Derivatives	0	0	0	0	0	0	(2,286,838)	0	0	0
Net Unrealized Gain / (Loss) on Investments	(2,957,709)	(724,739)	(882,309)	0	(3,086,790)	0	(9,700,992)	(120,499)	(45,148)	6,888
Cumulative Effect of Change in Accounting Principle	0	0	0	0	0	0	0	0	0	0
Total Increase in Unrestricted Net Assets	19,885,928	1,443,796	(2,139,772)	(3,592,215)	10,853,513	(1,154,749)	(29,513,861)	(5,777,642)	725,301	170,446
EBITDA	35,253,549	7,098,135	3,279,615	(1,186,511)	20,771,539	(907,728)	9,758,441	(5,508,498)	770,450	213,928

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Information)

Years Ended June 30, 2015 and 2014

PYA
Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Information)
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

PERSHING YOAKLEY & ASSOCIATES, P.C.
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PYA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mountain States Health Alliance and its subsidiaries (the Alliance), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and its subsidiaries as of June 30, 2015 and 2014, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 28, 2015

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30,	
	2015	*2014*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 79,714**	$ 59,185
Current portion of investments	**19,598**	25,029
Patient accounts receivable, less estimated allowances for uncollectible accounts of $73,805 in 2015 and $47,853 in 2014	**162,256**	161,318
Other receivables, net	**33,286**	45,502
Inventories and prepaid expenses	**33,969**	30,838
TOTAL CURRENT ASSETS	**328,823**	321,872
INVESTMENTS, less amounts required to meet current obligations	**694,542**	648,475
PROPERTY, PLANT AND EQUIPMENT, net	**847,089**	881,429
OTHER ASSETS		
Goodwill	**156,596**	156,613
Net deferred financing, acquisition costs and other charges	**24,755**	25,841
Other assets	**53,040**	48,350
TOTAL OTHER ASSETS	**234,391**	230,804
	$ 2,104,845	$ 2,082,580

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Dollars in Thousands)

	June 30, 2015	June 30, 2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ **18,159**	$ 18,648
Current portion of long-term debt and capital lease obligations	**40,286**	30,618
Accounts payable and accrued expenses	**100,301**	87,126
Accrued salaries, compensated absences and amounts withheld	**72,066**	72,181
Estimated amounts due to third-party payers, net	**4,781**	10,463
TOTAL CURRENT LIABILITIES	**235,593**	219,036
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	**1,031,661**	1,075,069
Estimated fair value of derivatives	**2,541**	10,603
Estimated professional liability self-insurance	**8,461**	8,957
Other long-term liabilities	**38,683**	35,974
TOTAL LIABILITIES	**1,316,939**	1,349,639
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and M		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	**583,287**	541,979
Noncontrolling interests in subsidiaries	**191,118**	178,547
TOTAL UNRESTRICTED NET ASSETS	**774,405**	720,526
Temporarily restricted net assets		
Mountain States Health Alliance	**13,303**	12,204
Noncontrolling interests in subsidiaries	**71**	84
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**13,374**	12,288
Permanently restricted net assets	**127**	127
TOTAL NET ASSETS	**787,906**	732,941
	$ **2,104,845**	$ 2,082,580

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30, 2015	2014
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ **1,116,954**	$ 1,046,767
Provision for bad debts	**(127,519)**	(122,642)
Net patient service revenue	**989,435**	924,125
Premium revenue	**32,184**	10,683
Net investment gain	**17,016**	50,703
Net derivative gain	**13,890**	3,219
Other revenue, gains and support	**36,571**	62,457
TOTAL REVENUE, GAINS AND SUPPORT	**1,089,096**	1,051,187
Expenses and losses:		
Salaries and wages	**345,155**	340,589
Physician salaries and wages	**80,279**	77,636
Contract labor	**5,416**	4,282
Employee benefits	**77,306**	69,173
Fees	**120,691**	115,606
Supplies	**176,050**	163,699
Utilities	**16,775**	17,052
Medical costs	**18,383**	6,633
Other	**81,477**	79,980
Loss on early extinguishment of debt	**-**	4,622
Depreciation	**67,210**	69,437
Amortization	**1,557**	1,742
Interest and taxes	**43,697**	44,392
TOTAL EXPENSES AND LOSSES	**1,033,996**	994,843
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ **55,100**	$ 56,344

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2015

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 41,008	$ 14,092	$ 55,100
Pension and other defined benefit plan adjustments	(178)	(152)	(330)
Net assets released from restrictions used for the purchase of property, plant and equipment	478	-	478
Repurchases of noncontrolling interests, net	-	(1,014)	(1,014)
Distributions to noncontrolling interests	-	(355)	(355)
INCREASE IN UNRESTRICTED NET ASSETS	41,308	12,571	53,879
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,663	69	3,732
Net assets released from restrictions	(2,564)	(82)	(2,646)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,099	(13)	1,086
INCREASE IN TOTAL NET ASSETS	42,407	12,558	54,965
NET ASSETS, BEGINNING OF YEAR	554,310	178,631	732,941
NET ASSETS, END OF YEAR	$ 596,717	$ 191,189	$ 787,906

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2014

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 48,058	$ 8,286	$ 56,344
Pension and other defined benefit plan adjustments	194	194	388
Net assets released from restrictions used for the purchase of property, plant and equipment	3,313	-	3,313
Noncontrolling interest in acquired subsidiary	-	914	914
Distributions to noncontrolling interests	-	(461)	(461)
INCREASE IN UNRESTRICTED NET ASSETS	51,565	8,933	60,498
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	4,693	88	4,781
Net assets released from restrictions	(5,265)	(56)	(5,321)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(572)	32	(540)
INCREASE IN TOTAL NET ASSETS	50,993	8,965	59,958
NET ASSETS, BEGINNING OF YEAR	503,317	169,666	672,983
NET ASSETS, END OF YEAR	$ 554,310	$ 178,631	$ 732,941

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30,	
	2015	*2014*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	**$ 54,965**	$ 59,958
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	**69,242**	71,789
Provision for bad debts	**127,519**	122,642
Loss on early extinguishment of debt	**-**	4,622
Change in estimated fair value of derivatives	**(7,718)**	2,761
Equity in net income of joint ventures, net	**(79)**	(369)
Loss (gain) on disposal of assets	**(2,192)**	(3,489)
Amounts received on interest rate swap settlements	**(6,172)**	(5,980)
Capital Appreciation Bond accretion and other	**2,780**	2,629
Restricted contributions	**(3,732)**	(4,781)
Pension and other defined benefit plan adjustments	**330**	(388)
Increase (decrease) in cash due to change in:		
Patient accounts receivable	**(128,457)**	(115,380)
Other receivables, net	**12,303**	(11,880)
Inventories and prepaid expenses	**(3,131)**	959
Trading securities	**(39,873)**	(46,451)
Other assets	**(3,128)**	(2,492)
Accrued interest payable	**(489)**	(1,058)
Accounts payable and accrued expenses	**16,745**	(6,666)
Accrued salaries, compensated absences and amounts withheld	**(115)**	8,006
Estimated amounts due to third-party payers, net	**(5,682)**	(16,312)
Estimated professional liability self-insurance	**(496)**	199
Other long-term liabilities	**2,379**	16,425
Total adjustments	**30,034**	14,786
NET CASH PROVIDED BY OPERATING ACTIVITIES	**84,999**	74,744
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment and property held for expansion	**(44,569)**	(64,424)
Acquisitions, net of cash acquired	**-**	(4,256)
Purchases of held-to-maturity securities	**(1,417)**	(5,978)
Net distribution from joint ventures and unconsolidated affiliates	**4,859**	661
Proceeds from sale of property, plant and equipment and property held for resale	**2,654**	2,858
NET CASH USED IN INVESTING ACTIVITIES	**(38,473)**	(71,139)

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows - Continued
(Dollars in Thousands)

	Year Ended June 30,	
	2015	***2014***
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(36,210)**	(38,768)
Payment of acquisition and financing costs	**-**	(3,826)
Proceeds from issuance of long-term debt and other financing arrangements	**-**	11,916
Net amounts received on interest rate swap settlements	**6,172**	5,980
Restricted contributions received	**4,041**	5,376
NET CASH USED IN FINANCING ACTIVITIES	**(25,997)**	(19,322)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**20,529**	(15,717)
CASH AND CASH EQUIVALENTS, beginning of year	**59,185**	74,902
CASH AND CASH EQUIVALENTS, end of year	**$ 79,714**	$ 59,185
SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:		
Cash paid for interest	**$ 38,982**	$ 40,546
Cash paid for federal and state income taxes	**$ 917**	$ 854
Construction related payables in accounts payable and accrued expenses	**$ 5,034**	$ 8,604
Assets contributed into joint venture	**$ 8,668**	$ -
Supplemental cash flow information regarding acquisitions:		
Assets acquired, net of cash	**$ -**	$ 12,715
Liabilities assumed	**-**	(8,459)
Acquisitions, net of cash acquired	**$ -**	$ 4,256

During the year ended June 30, 2014, the Alliance refinanced previously issued debt of $318,385.

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, Unicoi, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The primary operations of the Alliance consist of eleven acute and specialty care hospitals.

The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets attributable to the noncontrolling interests in the following subsidiaries:

- Smyth County Community Hospital and Subsidiary - the Alliance holds an 80% interest
- Norton Community Hospital and Subsidiaries - the Alliance holds a 50.1% interest
- Johnston Memorial Hospital, Inc. and Subsidiaries - the Alliance holds a 50.1% interest

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices, real estate and ambulatory surgery centers and provides other healthcare services to individuals in Tennessee and Virginia.

The Alliance is a 99.9% shareholder of Integrated Solutions Health Network, LLC, a for-profit entity that owns a for-profit insurance company and an accountable care organization and administers a provider-sponsored health care delivery network,

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc., a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its consolidated subsidiaries after elimination of all significant intercompany accounts and transactions.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents.

Investments: Investments include trading securities and held-to-maturity securities. Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value utilizing observable and unobservable inputs. Investments which the Alliance has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. Realized gains and losses are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Management evaluates whether unrealized losses on held-to-maturity investments indicate other-than-temporary impairment. Such evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2015.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value. Other assets include investments in joint ventures of $5,180 and $1,364 at June 30, 2015 and 2014, respectively. During 2015, the Alliance contributed assets into a joint venture which owns and operates a rehabilitation hospital.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market with cost determined by first-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2015 and 2014.

Other assets include property held for resale and expansion of $19,316 and $20,793, respectively, at June 30, 2015 and 2014. Property held for resale and expansion primarily represents land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2015 and 2014.

Goodwill: Goodwill is evaluated for impairment at least annually. The Alliance comprises a single reporting unit for evaluation of goodwill. Management performed an evaluation of goodwill for impairment considering qualitative and quantitative factors and does not believe the goodwill to be impaired as of June 30, 2015 and 2014. Management's estimates utilized in the evaluation contain significant estimates and it is reasonably possible that such estimates could change in the near term.

Deferred Financing, Acquisition Costs and Other Charges: Other assets include deferred financing, acquisition costs and other charges of $24,755 and $25,841 at June 30, 2015 and 2014, respectively. Deferred financing costs are amortized over the life of the respective bond issue using the average bonds outstanding method.

Derivative Financial Instruments: The Alliance is a party to various interest rate swaps. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Alliance's revenue recognition policies related to self-pay and other types of payers emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. The primary uncertainty lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients. Additions to the allowance for uncollectible accounts result from the provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has their bill reduced to the amount which generally would be billed to a commercially insured patient. The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. Charges forgone, based on established rates, totaled $85,988 and $109,550 during 2015 and 2014, respectively. The estimated direct and indirect cost of providing these services totaled $17,953 and $24,011 in 2015 and 2014, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated.

In addition to the charity care services, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption Excess of Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, certain pension and related adjustments, and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. The Alliance's taxable subsidiaries are discussed in Note L. The Alliance has no significant uncertain tax positions at June 30, 2015 and 2014. At June 30, 2015, tax returns for 2011 through 2014 are subject to examination by the Internal Revenue Service.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other revenue, gains and support in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Premium Revenue: Premium revenue include premiums from individuals and the Centers for Medicare & Medicaid Services (CMS). CMS premium revenue is based on predetermined prepaid rates under Medicare risk contracts. Premiums are recognized in the month in which the members are entitled to health care services. Premiums collected in advance are deferred and recorded as unearned premium revenue. Premium deficiency losses are recognized when it is probable that expected future claim expenses will exceed future premiums on existing contracts. Management evaluated the need for a premium deficiency reserve and recorded an estimated reserve of $2,000 at June 30, 2015 and 2014.

Medicare Shared Savings Program (MSSP): The Alliance participates in CMS's Medicare Shared Savings Program which is designed to facilitate coordination and cooperation among providers to improve the quality of care for Medicare beneficiaries and reduce unnecessary costs. Accountable care organizations participating in the program are assigned beneficiaries by CMS and are entitled to share in the savings if they are able to lower growth in Medicare Parts A and B fee-for-service costs while meeting performance standards on quality of care. Utilizing statistical data and the

methodology employed by CMS, management estimated and recognized $2,857 and $5,425 of shared savings in 2015 and 2014, respectively.

Electronic Health Record (EHR) Incentives: The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified EHR technology. The incentive payments are calculated based upon estimated discharges, charity care and other input data and are recorded upon the Alliance's attainment of program and attestation criteria. The incentive payments are subject to regulatory audit. During the years ending June 30, 2015 and 2014, the Alliance recognized EHR incentive revenues of $1,883 and $18,269, respectively. EHR incentive revenues are included in other revenue, gains and support in the accompanying Consolidated Statements of Operations. The Alliance incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not directly correlate with the timing of the Alliance's receipt or recognition of the EHR incentive payments.

Medical Costs: The cost of health care services is recognized in the period in which services are provided. Medical costs include an estimate of the cost of services provided to members by third-party providers, which have been incurred but not reported.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2015, through October 28, 2015, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2015 consolidated financial statements, other than as disclosed in Note P.

Reclassifications: Certain 2014 amounts have been reclassified to conform with the 2015 presentation in the accompanying consolidated financial statements.

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under ASU 2014-09, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the accounting standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of adopting the accounting standard.

(Dollars in Thousands)

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2015	2014
Designated or restricted:		
Under safekeeping agreements	$ 8,221	$ 8,220
By Board to satisfy regulatory requirements	1,529	6,759
Under bond indenture agreements:		
For debt service and interest payments	53,812	55,123
For capital acquisitions	8,507	16,127
	72,069	86,229
Less: amount required to meet current obligations	(19,598)	(25,029)
	$ 52,471	$ 61,200

Assets limited as to use consist of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 49,665	$ 54,437
U.S. Government and agency securities	19,757	28,518
Corporate and foreign bonds	860	2,354
Municipal obligations	1,787	920
	$ 72,069	$ 86,229

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 2,781	$ 220
Corporate and foreign bonds	30,967	35,131
Municipal obligations	5,765	3,408
	$ 39,513	$ 38,759

Held-to-maturity securities had gross unrealized gains and losses of $98 and $425, respectively, at June 30, 2015 and $206 and $456, respectively, at June 30 2014. At June 30, 2015, the Alliance held securities within the held-to-maturity portfolio with a fair value and unrealized loss of $12,710

(Dollars in Thousands)

and $359, respectively, which had been at an unrealized loss position for over one year. At June 30, 2014, the Alliance held securities within the held-to-maturity portfolio with a fair value and unrealized loss of $13,513 and $456, respectively, which had been at an unrealized loss position for over one year. At June 30, 2015, the contractual maturities of held-to-maturity securities were $10,020 due in one year or less, $16,580 due from one to five years and $12,913 due after five years.

Trading securities consist of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 20,789	$ 50,623
U.S. Government and agency securities	76,167	69,805
Corporate and foreign bonds	95,726	96,749
Municipal obligations	23,330	21,409
U.S. equity securities	5,419	1,868
Mutual funds	293,983	253,301
Alternative investments	87,144	54,761
	$ 602,558	$ 548,516

The net investment gain is comprised of the following for the years ending June 30:

	2015	2014
Interest and dividend income, net of fees	$ 13,894	$ 12,074
Net realized gains on the sale of securities	9,260	15,311
Change in net unrealized gains on securities	(6,138)	23,318
	$ 17,016	$ 50,703

The Alliance is a member of Premier Inc.'s (Premier) group purchasing organization and holds Class B Units which are convertible into cash or Class A common stock over a seven year vesting period. The Alliance records an investment relative to the estimated fair value of its Class B units, $14,724 and $14,713 at June 30, 2015 and 2014, respectively. In addition, as the vesting period is tangential to the Alliance's continued participation in the group purchasing contract, the Alliance recorded a liability equivalent to the estimated fair value of the Class B units, which is included within other long-term liabilities in the Consolidated Balance Sheets. The liability is being amortized as a vendor incentive over the vesting period. During 2015 and 2014, the Alliance recognized $4,045 and $2,933, respectively, related to the vendor incentive which is included within other revenue, gains and support in the Consolidated Statements of Operations.

(Dollars in Thousands)

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is subject to an enforceable master netting arrangement in the form of an ISDA agreement with Bank of America, Merrill Lynch (BofAML). The ISDA agreement requires that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2015 and 2014, the Alliance was not required to post additional collateral. Under the terms of this agreement, offsetting of derivative contracts is permitted in the event of default of either party to the agreement.

The following is a summary of the interest rate swap agreements at June 30, 2015 and 2014:

Notional Amount	*Termination*	*Counterparty*	*Current Payments: Receive*	*Pay*	*Estimated Fair Value 2015*	*2014*
$170,000	4/2026	BofAML	1.14%	0.00%	$ 5,205	$ 3,089
$95,000	4/2026	BofAML	1.14%	0.00%	2,929	1,748
$173,030	4/2034	BofAML	1.16%	0.00%	884	(1,884)
$82,055	7/2033	BofAML	67% USD-LIBOR-BBA	0.312% + USD-SIFMA	(8,253)	(9,365)
$50,000	7/2038	BofAML	67% (USD-LIBOR-BBA + 0.15%)	USD-SIFMA	(3,351)	(4,210)
$19,400	7/2018	BofAML	4.50%	1.05% + USD-SIFMA	48	63
$4,293	7/2015	First Tennessee Bank	0.00%	USD-LIBOR-BBA	(3)	(44)
					$ (2,541)	$ (10,603)

The Alliance recognized net settlement income on the interest rate swap agreements of $6,172 and $5,980 in 2015 and 2014, respectively.

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2015	2014
Land	$ 60,337	$ 60,722
Buildings and leasehold improvements	766,089	760,853
Property and improvements held for leasing	83,582	80,824
Equipment and information technology infrastructure	733,315	700,748
Buildings and equipment held under capital lease	249	340
	1,643,572	1,603,487
Less: Allowances for depreciation and amortization	(815,105)	(757,641)
	828,467	845,846
Construction in progress	18,622	35,583
	$ 847,089	$ 881,429

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $29,520 and $27,500 at June 30, 2015 and 2014, respectively. Net interest capitalized was $925 and $1,533 for the years ended June 30, 2015 and 2014, respectively.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

Description	Rate as of June 30, 2015	Outstanding Balance 2015	Outstanding Balance 2014
2013 Hospital Revenue and Refunding Revenue Bonds:			
$61,180 variable rate tax-exempt term bond, due August 2031	1.15%	$ 327,785	$ 328,665
$47,970 variable rate tax-exempt term bond, due August 2032	0.93%		
$13,350 variable rate tax-exempt term bond, due August 2038	1.15%		
$89,370 variable rate tax-exempt term bonds, due August 2042	1.12% - 1.23%		
$16,235 variable rate tax-exempt term bond, due August 2043	0.07%		
$99,680 variable rate taxable term bond due August 2043	0.12%		
2012 Hospital Revenue Bonds: (net of unamortized premium of $1,696 and $1,756 at June 30, 2015 and 2014, respectively)			
$55,000 fixed rate tax-exempt term bond, due August 2042	5.00%	56,696	56,756
2011 Hospital Revenue and Refunding and Improvement Bonds:			
$74,795 variable rate tax-exempt term bonds, due July 2033	0.08%	94,320	104,710
$19,525 variable rate tax-exempt term bond, due July 2033	1.11%		

MOUNTAIN STATES HEALTH ALLIANCE

Notes to Consolidated Financial Statements - Continued
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

Description	*Rate as of June 30, 2015*	*Outstanding Balance 2015*	*2014*
2010 Hospital Revenue Refunding Bonds: (net of unamortized premium of $1,441 and $1,523 at June 30, 2015 and 2014, respectively)			
$33,960 fixed rate tax-exempt serial bonds, through 2020	4.00% to 5.00%	173,271	180,993
$4,355 fixed rate tax-exempt term bond, due July 2023	5.00%		
$14,985 fixed rate tax-exempt term bond, due July 2025	5.38%		
$4,250 fixed rate tax-exempt term bond, due July 2028	5.50%		
$19,230 fixed rate tax-exempt term bond, due July 2030	5.63%		
$95,050 fixed rate tax-exempt term bonds, due July 2038	6.00% - 6.50%		
2009 Hospital Revenue Bonds: (net of unamortized discount of $2,176 and $2,267 at June 30, 2015 and 2014, respectively)			
$14,425 fixed rate tax-exempt term bonds, due July 2019	7.25%	117,264	119,813
$21,730 fixed rate tax-exempt term bonds, due July 2029	7.50%		
$83,285 fixed rate tax-exempt term bonds, due July 2038	7.75% - 8.00%		
2007B Taxable Hospital Revenue Bonds:			
$15,920 variable rate taxable term bond due July 2019	0.12%	15,920	19,515
2006 Hospital First Mortgage Revenue Bonds: (net of unamortized premium of $123 and $129 at June 30, 2015 and 2014, respectively)			
$3,965 fixed rate tax-exempt serial bonds, through 2019	5.00%	167,143	167,864
$7,375 fixed rate tax-exempt term bond, due July 2026	5.25%		
$20,505 fixed rate tax-exempt term bond, due July 2031	5.50%		
$135,175 fixed rate tax-exempt term bond, due July 2036	5.50%		
2001 Hospital First Mortgage Revenue Bond:			
$19,400 fixed rate tax-exempt term bond, due July 2026	4.50%	19,400	20,400
2000 Hospital First Mortgage Revenue and Refunding Bonds:			
$42,000 fixed rate tax-exempt term bond, due July 2026	8.50%	81,538	81,006
$39,538 fixed rate tax-exempt Capital Appreciation Bond, interest and principal due July 2026 through 2030	6.63%		
Capitalized lease obligations secured by equipment			
Various monthly principal and interest payments through December 2016	Various	350	806
Notes payable secured by real estate			
Paid-off in 2015	Various	-	5,542
Promissory notes secured by assets of certain subsidiaries			
Various monthly principal and interest payments through 2019	Various	1,705	1,944
Term note			
Monthly principal payments of $60 plus variable rate interest beginning November 2012 through September 2015; remaining principal due October 2015	1.17%	16,160	16,883
Notes payable secured by equipment			
Various monthly principal and interest payments through 2016	Various	395	790
		1,071,947	1,105,687
Less current portion		(40,286)	(30,618)
		$ 1,031,661	$ 1,075,069

Capital Appreciation Bonds: The Series 2000 Bonds include $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

Other: Outstanding tax-exempt bond obligations that were insured under municipal bond insurance policies were $81,538 and $81,006 at June 30, 2015 and 2014, respectively. Under terms of these policies, the insurer guarantees the Alliance's payment of principal and interest. At June 30, 2015 and 2014, the Alliance held $206,630 and $212,360, respectively, in variable rate demand bonds with letter of credit support and $231,395 and $240,530, respectively, in variable rate bonds held under direct purchase agreements.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Derecognized Bonds: In previous years, the Alliance advance refunded debt by placing required funds in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt. Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2015 due to previous advance refundings totaled $185,470.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

Financing Arrangements: The Alliance granted a deed of trust on Johnson City Medical Center and Sycamore Shoals Hospital to secure the payment of the outstanding bond indebtedness. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The Johnston Memorial Hospital, Inc. and Subsidiaries (JMH) Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

(Dollars in Thousands)

Certain members of the Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2015.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2015 are as follows:

Year Ending June 30,		
2016	$	40,286
2017		24,112
2018		24,793
2019		25,926
2020		27,048
Thereafter		928,699
		1,070,864
Net premium		1,083
	$	1,071,947

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

(Dollars in Thousands)

At June 30, 2015, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2015 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2015 and 2014 was $12,616 and $13,220, respectively. The discount rate utilized was 5% at June 30, 2015 and 2014.

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid. Such amount is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

NOTE H--NET PATIENT SERVICE REVENUE

Patient service revenue, net of contractual allowances and discounts, is composed of the following for the years ended June 30:

	2015	*2014*
Third-party payers	$ 965,865	$ 933,491
Patients	151,089	113,276
Patient service revenue	$ 1,116,954	$ 1,046,767

Patient deductibles and copayments under third-party payment programs are included within the patient amounts above.

The Alliance also provides services to uninsured and underinsured patients that do not qualify for financial assistance. Based on historical experience, a significant portion of uninsured and underinsured patients are unable or unwilling to pay the portion of their bill for which they are financially responsible, and a significant provision for bad debts is recorded in the period the services are provided.

The Alliance's allowance for doubtful accounts totaled $73,805 and $47,853 at June 30, 2015 and 2014, respectively. The allowance for doubtful accounts increased from 23% of patient accounts receivable, net of contractual allowances in 2014 to 31% of patient accounts receivable, net of contractual allowances in 2015. The increase is mainly related to the growing popularity of high-deductible insurance plans resulting in higher deductibles and out-of-pocket costs for patients. Management's estimate of the allowance for doubtful accounts is an estimate subject to change in the

near term. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare and various other commercial payers. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee and Medicaid. These payments recognized totaled $10,386 and $10,860 for the years ended June 30, 2015 and 2014, respectively.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are transitioning from cost-based reimbursement principles to a prospective payment system. Full implementation of this transition is expected to take place over multiple years.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The impact of final settlements of cost reports or changes in estimates increased net patient service revenue by $3,076 and $6,201 in 2015 and 2014, respectively.

Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts, if any. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements.

However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2016, although the amount of any change cannot be estimated.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2015.

The Alliance has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a defined contribution retirement plan (the Plan) which covers substantially all employees. The Alliance makes contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2015 and 2014 was $15,601 and $13,850, respectively.

NCH maintains a frozen defined benefit pension plan and a frozen post-retirement employee benefit plan. The accrued unfunded pension liability was $1,806 and $2,086, and the accrued unfunded post-retirement liability was $6,307 and $5,857 at June 30, 2015 and 2014, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement dates, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,727 and $511 to the plan during 2015 and 2014, respectively. Other assets at June 30, 2015 and 2014 include $13,030 and $11,302, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. Contributions to the Section 457(f) plan during 2015 and 2014 were not significant.

NOTE K--CONCENTRATION OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia, a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local

(Dollars in Thousands)

residents and are insured under third-party payer agreements. Net patient service revenue from Washington County, Tennessee acute-care operations was approximately 52% of total net patient service revenue in 2015 and 2014.

The mix of receivables from patients and third-party payers based on charges at established rates is as follows as of June 30. The patient responsibility related to charges for which the third-party has not yet paid is included within the third-party payer categories.

	2015	*2014*
Medicare	41%	39%
Tenncare/Medicaid	15%	18%
Commercial	26%	28%
Other third-party payers	8%	8%
Patients	10%	7%
	100%	100%

Approximately 91% and 88% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2015 and 2014, respectively. Admitting physicians are primarily practitioners in the regional area.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the Alliance may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2015 and 2014, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $30,700 and $27,085, respectively, related to operating loss carryforwards, which expire through 2033. At June 30, 2015 and 2014, BRMM had state net operating loss carryforwards of $75,619 and $74,191, respectively, which expire through 2029. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

(Dollars in Thousands)

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2015 represents costs incurred related to various hospital and medical office building facility renovations and additions and information technology infrastructure. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be $30,508 at June 30, 2015. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degrees. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately, and interest is charged until the funds are repaid. Other receivables at June 30, 2015 and 2014 include $7,095 and $8,685, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of an estimated allowance.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2015 and 2014 was $7,414 and $7,901, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

Year Ending June 30,		
2016	$	7,346
2017		4,614
2018		3,605
2019		3,279
2020		2,481
Thereafter		11,240
	$	32,565

NOTE N--FAIR VALUE MEASUREMENT

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2015 and 2014, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Held-to-Maturity Securities: The estimated fair value of the Alliance's held-to-maturity securities at June 30, 2015 and 2014, is $39,186 and $38,508, respectively, and would be classified in level 2 of the fair value hierarchy (described below). The fair value is based on prices provided by the Alliance's investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations.

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities.

Long-Term Debt: The estimated fair value of the Alliance's long-term debt at June 30, 2015 and 2014, is $1,130,580 and $1,172,357, respectively, and would be classified in Level 2 in the fair value hierarchy. The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

FASB Accounting Standards Codification 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can

(Dollars in Thousands)

- be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Alliance's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial instruments measured at fair value as of June 30, 2015 and 2014:

	Total	*Level 1*	*Level 2*	*Level 3*
June 30, 2015				
Cash and cash equivalents	$ 70,439	$ 70,439	$ -	$ -
U.S. Government and agency securities	88,083	88,083	-	-
Corporate and foreign bonds	96,586	-	96,586	-
Municipal obligations	23,329	-	23,329	-
U.S. equity securities	5,419	5,419	-	-
Mutual funds	293,983	212,323	81,660	-
Alternative investments	87,144	-	72,420	14,724
Total assets	$ 664,983	$ 376,264	$ 273,995	$ 14,724
Derivative agreements	$ (2,541)	$ -	$ -	$ (2,541)
June 30, 2014				
Cash and cash equivalents	$ 98,956	$ 98,956	$ -	$ -
U.S. Government and agency securities	90,474	90,474	-	-
Corporate and foreign bonds	99,103	-	99,103	-
Municipal obligations	21,409	-	21,409	-
U.S. equity securities	1,868	1,868	-	-
Mutual funds	253,301	177,067	76,234	-
Alternative investments	69,474	-	54,761	14,713
Total assets	$ 634,585	$ 368,365	$ 251,507	$ 14,713
Derivative agreements	$ (10,603)	$ -	$ -	$ (10,603)

Fair values for the Alliance's fixed maturity securities are based on prices provided by the Alliance's investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations. Fair values of equity securities have been determined by the Alliance from market quotations.

Alternative Investments: The Alliance generally uses net asset value per unit as provided by external investment managers without further adjustment as the practical expedient estimate of the fair value of its alternative investment in a real estate fund. Accordingly, such values may differ from values that would have been used had an active market for the investments existed. The real estate fund invests primarily in U.S. commercial real estate. The Alliance may request redemption of all or a portion of its interests as of the end of a calendar quarter by delivering written notice to the fund managers at least 60 days prior to the end of the quarter. Such redemptions are subject to the capital requirements of the fund manager.

The Alliance's investment in Premier Class B units does not have a readily determinable fair value and have been reported at estimated fair market value. The significant unobservable inputs primarily relate to management's estimate of the discount for lack of marketability of 12%. Accordingly, such value may differ from values that would have been used had an active market for the investment existed and as such it has been classified in Level 3 of the fair value hierarchy.

Derivative Agreements: The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2015 and 2014 resulted in a decrease in the fair value of the related liability of $713 and $4,584, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

(Dollars in Thousands)

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2015 and 2014:

	Alternative Investment	*Derivatives, Net*
July 1, 2013	$ -	$ (8,185)
Total unrealized/realized losses	-	(2,761)
Net investment income	-	343
Additions	14,713	-
June 30, 2014	14,713	(10,603)
Total unrealized/realized gains	6,978	7,718
Net investment income	-	344
Settlements	(6,967)	-
June 30, 2015	$ 14,724	$ (2,541)

NOTE O--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprises, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE P--SUBSEQUENT EVENTS

The Alliance and Wellmont Health System (Wellmont) have agreed to exclusively explore the creation of a new, integrated and locally governed health system. Wellmont operates six hospitals and numerous outpatient care sites, serving communities in Northeast Tennessee and Southwest Virginia. Wellmont and the Alliance have filed a letter of intent (LOI) with the Tennessee Department of Health, indicating the organizations will submit an application for a Certificate of Public Advantage (COPA). The two organizations have submitted a similar letter of intent with the Southwest Virginia Health Authority, signaling their intent to request approval by the commonwealth of the anticipated cooperative agreement between the two systems. A COPA in Tennessee and the cooperative agreement approval process in Virginia will allow Wellmont and the Alliance to merge, with the states actively supervising the proposed new health system to ensure it complies with the provisions of the COPA intended to contain costs and sustain high quality, affordable care. The two organizations are in the process of finalizing a definitive agreement. The date for expected completion of the merger has not been set but will not occur before state approval has been granted.

Supplemental Information

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,940	$ 6,798
Patient accounts receivable, less estimated allowances for uncollectible accounts	6,295	11,137
Other receivables, net	156	310
Inventories and prepaid expenses	1,079	2,061
Estimated amounts due from third-party payers, net	793	292
TOTAL CURRENT ASSETS	11,263	20,598
INVESTMENTS, less amounts required to meet current obligations	24,807	30,451
PROPERTY, PLANT AND EQUIPMENT, net	67,550	50,275
OTHER ASSETS		
Net deferred financing, acquisition costs and other charges	139	210
Other assets	741	-
TOTAL OTHER ASSETS	880	210
	$ 104,500	$ 101,534

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 12	$ 15
Current portion of long-term debt and capital lease obligations	134	110
Accounts payable and accrued expenses	2,323	6,245
Accrued salaries, compensated absences and amounts withheld	2,116	4,388
Payables to affiliates, net	342	89
TOTAL CURRENT LIABILITIES	4,927	10,847
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	15,830	20,985
Estimated professional liability self-insurance	442	632
Other long-term liabilities	1,178	8,200
TOTAL LIABILITIES	22,377	40,664
NET ASSETS		
Unrestricted net assets	82,114	60,734
Temporarily restricted net assets	9	136
TOTAL NET ASSETS	82,123	60,870
	$ 104,500	$ 101,534

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

Year Ended June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
UNRESTRICTED NET ASSETS:		
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ 48,370	$ 78,667
Provision for bad debts	(5,332)	(8,546)
Net patient service revenue	43,038	70,121
Net investment gain	651	746
Other revenue, gains and support	1,745	2,576
TOTAL REVENUE, GAINS AND SUPPORT	45,434	73,443
Expenses and losses:		
Salaries and wages	17,289	23,681
Physician salaries and wages	257	6,043
Contract labor	170	567
Employee benefits	4,365	8,965
Fees	9,050	8,326
Supplies	5,349	8,793
Utilities	978	1,286
Other	4,348	7,753
Depreciation	4,289	4,489
Amortization	8	30
Interest and taxes	156	257
TOTAL EXPENSES AND LOSSES	46,259	70,190
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	(825)	3,253
Pension and postretirement liability adjustments	-	(305)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(825)	2,948

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets - Continued
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

Year Ended June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted grants and contributions	8	134
Net assets released from restrictions	(8)	(160)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(26)
INCREASE (DECREASE) IN TOTAL NET ASSETS	(825)	2,922
NET ASSETS, BEGINNING OF YEAR	82,948	57,948
NET ASSETS, END OF YEAR	$ 82,123	$ 60,870

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 47,025	$ 32,689	$ -	$ 79,714
Current portion of investments	19,598	-	-	19,598
Patient accounts receivable, less estimated allowance for uncollectible accounts	134,777	27,479	-	162,256
Other receivables, net	17,873	15,413	-	33,286
Inventories and prepaid expenses	25,427	8,542	-	33,969
TOTAL CURRENT ASSETS	244,700	84,123	-	328,823
INVESTMENTS, less amounts required to meet current obligations	458,373	236,169	-	694,542
EQUITY IN AFFILIATES	351,724	-	(351,724)	-
PROPERTY, PLANT AND EQUIPMENT, net	614,870	232,219	-	847,089
OTHER ASSETS				
Goodwill	152,600	3,996	-	156,596
Net deferred financing, acquisition costs and other charges	23,504	1,251	-	24,755
Other assets	44,738	8,302	-	53,040
TOTAL OTHER ASSETS	220,842	13,549	-	234,391
	$ 1,890,509	$ 566,060	$ (351,724)	$ 2,104,845

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet – Continued
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued interest payable	$ 18,125	$ 34	$ -	$ 18,159
Current portion of long-term debt and capital lease obligations	22,040	18,246	-	40,286
Accounts payable and accrued expenses	80,408	19,893	-	100,301
Accrued salaries, compensated absences and amounts withheld	54,519	17,547	-	72,066
Payables to (receivables from) affiliates, net	15,314	(15,314)	-	-
Estimated amounts due to third-party payers, net	3,909	872	-	4,781
TOTAL CURRENT LIABILITIES	194,315	41,278	-	235,593
OTHER LIABILITIES				
Long-term debt and capital lease obligations, less current portion	1,012,167	19,494	-	1,031,661
Estimated fair value of derivatives, net	2,541	-	-	2,541
Estimated professional liability self-insurance	7,362	1,099	-	8,461
Other long-term liabilities	35,176	3,507	-	38,683
TOTAL LIABILITIES	1,251,561	65,378	-	1,316,939
NET ASSETS				
Unrestricted net assets				
Mountain States Health Alliance	583,287	344,360	(344,360)	583,287
Noncontrolling interests in subsidiaries	42,160	143,222	5,736	191,118
TOTAL UNRESTRICTED NET ASSETS	625,447	487,582	(338,624)	774,405
Temporarily restricted net assets				
Mountain States Health Alliance	13,303	12,966	(12,966)	13,303
Noncontrolling interests in subsidiaries	71	7	(7)	71
TOTAL TEMPORARILY RESTRICTED NET ASSETS	13,374	12,973	(12,973)	13,374
Permanently restricted net assets	127	127	(127)	127
TOTAL NET ASSETS	638,948	500,682	(351,724)	787,906
	$ 1,890,509	$ 566,060	$ (351,724)	$ 2,104,845

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations
(Obligated Group and Other Entities)
(Dollars in Thousands)

Year Ended June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
Revenue, gains and support:				
Patient service revenue, net of contractual allowances and discounts	$ 925,979	$ 203,883	$ (12,908)	$ 1,116,954
Provision for bad debts	(104,724)	(22,795)	-	(127,519)
Net patient service revenue	821,255	181,088	(12,908)	989,435
Premium revenue	-	32,184	-	32,184
Net investment gain	12,486	4,530	-	17,016
Net derivative gain	13,195	695	-	13,890
Other revenue, gains and support	27,244	97,465	(88,138)	36,571
Equity in net gain of affiliates	716	10,275	(10,991)	-
TOTAL REVENUE, GAINS AND SUPPORT	874,896	326,237	(112,037)	1,089,096
Expenses:				
Salaries and wages	284,643	67,093	(6,581)	345,155
Physician salaries and wages	64,838	71,222	(55,781)	80,279
Contract labor	3,101	2,913	(598)	5,416
Employee benefits	66,881	17,443	(7,018)	77,306
Fees	97,754	35,093	(12,156)	120,691
Supplies	146,516	29,660	(126)	176,050
Utilities	12,981	3,798	(4)	16,775
Medical Costs	-	30,566	(12,183)	18,383
Other	61,323	26,524	(6,370)	81,477
Depreciation	51,307	15,903	-	67,210
Amortization	1,488	69	-	1,557
Interest and taxes	41,599	2,098	-	43,697
TOTAL EXPENSES	832,431	302,382	(100,817)	1,033,996
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 42,465	$ 23,855	$ (11,220)	$ 55,100

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets
(Obligated Group and Other Entities)
(Dollars in Thousands)

Year Ended June 30, 2015

	Obligated Group		Total	Other Entities		Total		
	Mountain States Health Alliance	Noncontrolling Interests	Obligated Group	Mountain States Health Alliance	Noncontrolling Interests	Other Entities	Eliminations	Total
UNRESTRICTED NET ASSETS:								
Excess of Revenue, Gains and Support over Expenses and Losses	$ 41,008	$ 1,457	$ 42,465	$ 13,832	$ 10,023	$ 23,855	$ (11,220)	$ 55,100
Pension and other defined benefit plan adjustments	(178)	(152)	(330)	(207)	(206)	(413)	413	(330)
Net assets released from restrictions used for the purchase of property, plant and equipment	478	-	478	478	-	478	(478)	478
Repurchases of noncontrolling interests, net	-	(1,000)	(1,000)	-	(14)	(14)	-	(1,014)
Distributions to noncontrolling interests	-	-	-	(458)	(355)	(813)	458	(355)
Net asset transfers	-	-	-	912	2,372	3,284	(3,284)	-
INCREASE IN UNRESTRICTED NET ASSETS	41,308	305	41,613	14,557	11,820	26,377	(14,111)	53,879
TEMPORARILY RESTRICTED NET ASSETS:								
Restricted grants and contributions	3,663	69	3,732	3,172	7	3,179	(3,179)	3,732
Net assets released from restrictions	(2,564)	(82)	(2,646)	(2,093)	(5)	(2,098)	2,098	(2,646)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,099	(13)	1,086	1,079	2	1,081	(1,081)	1,086
INCREASE IN TOTAL NET ASSETS	42,407	292	42,699	15,636	11,822	27,458	(15,192)	54,965
NET ASSETS, BEGINNING OF YEAR	554,310	41,939	596,249	341,817	131,407	473,224	(336,532)	732,941
NET ASSETS, END OF YEAR	$ 596,717	$ 42,231	$ 638,948	$ 357,453	$ 143,229	$ 500,682	$ (351,724)	$ 787,906

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Note to Supplemental Information

Year Ended June 30, 2015

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The members pledged pursuant to the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Mellon Trust Company, NA as Master Trustee include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center, Unicoi County Memorial Hospital, Norton Community Hospital (hospital only), Smyth County Community Hospital (hospital only) and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group).

The supplemental consolidating information includes the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

ATTACHMENT B-CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE- 4A & 4B

1. **Current Licensure from Tennessee Department of Health**
2. **Official Accreditation Report Summary Statement from The Joint Commission**

Board for Licensing Health Care Facilities

State of Tennessee

0000000121

No. of Beds 0585

DEPARTMENT OF HEALTH

This is to certify, that a license is hereby granted by the State Department of Health to

MOUNTAIN STATES HEALTH ALLIANCE *to conduct and maintain a*

Hospital JOHNSON CITY MEDICAL CENTER

Located at 400 NORTH STATE OF FRANKLIN ROAD, JOHNSON CITY

County of WASHINGTON *, Tennessee.*

This license shall expire MAY 07 *,* 2017 *, and is subject to the provisions of Chapter 11, Tennessee Code Annotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the laws of the State of Tennessee or the rules and regulations of the State Department of Health issued thereunder.*

In Witness Whereof, we have hereunto set our hand and seal of the State this 26TH *day of* APRIL *,* 2016 *.*

In the Distinct Category(ies) of:
GENERAL HOSPITAL
PEDIATRIC GENERAL HOSPITAL
TRAUMA CENTER LEVEL 1

By Vincent J. Davis, MPH
DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

By
COMMISSIONER

144

ICF011

The Joint Commission

Official Accreditation Report

Johnson City Medical Center
400 North State of Franklin Rd
Johnson City, TN 37604

Organization Identification Number: 7844

Evidence of Standards Compliance (45 Day) Submitted: 5/27/2015

Executive Summary

Program(s)	Submit Date
Hospital Accreditation	5/27/2015

Hospital Accreditation : As a result of the accreditation activity conducted on the above date(s), there were no Requirements for Improvement identified.

You will have follow-up in the area(s) indicated below:

- Measure of Success (MOS) – A follow-up Measure of Success will occur in four (4) months.

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

Requirements for Improvement – Summary

Program	Standard	Level of Compliance
HAP	EC.02.02.01	Compliant
HAP	EC.02.03.01	Compliant
HAP	LS.02.01.10	Compliant
HAP	LS.02.01.20	Compliant
HAP	MM.04.01.01	Compliant
HAP	MM.05.01.01	Compliant
HAP	PC.02.01.03	Compliant
HAP	PC.03.05.01	Compliant

The Joint Commission
Summary of CMS Findings

CoP: §482.13 **Tag:** A-0115 **Deficiency:** Compliant

Corresponds to: HAP

Text: §482.13 Condition of Participation: Patient's Rights

A hospital must protect and promote each patient's rights.

CoP Standard	Tag	Corresponds to	Deficiency
§482.13(e)(9)	A-0174	HAP - PC.03.05.01/EP5	Compliant

CoP: §482.23 **Tag:** A-0385 **Deficiency:** Compliant

Corresponds to: HAP

Text: §482.23 Condition of Participation: Nursing Services

The hospital must have an organized nursing service that provides 24-hour nursing services. The nursing services must be furnished or supervised by a registered nurse.

CoP Standard	Tag	Corresponds to	Deficiency
§482.23(c)(3)	A-0406	HAP - MM.04.01.01/EP13	Compliant

CoP: §482.26 **Tag:** A-0528 **Deficiency:** Compliant

Corresponds to: HAP

Text: §482.26 Condition of Participation: Radiologic Services

The hospital must maintain, or have available, diagnostic radiologic services. If therapeutic services are also provided, they, as well as the diagnostic services, must meet professionally approved standards for safety and personnel qualifications.

CoP Standard	Tag	Corresponds to	Deficiency
§482.26(b)	A-0535	HAP - EC.02.02.01/EP7	Compliant

CoP: §482.41 **Tag:** A-0700 **Deficiency:** Standard

Corresponds to: HAP

Text: §482.41 Condition of Participation: Physical Environment

The hospital must be constructed, arranged, and maintained to ensure the safety of the patient, and to provide facilities for diagnosis and treatment and for special hospital services appropriate to the needs of the community.

CoP Standard	Tag	Corresponds to	Deficiency
§482.41(a)	A-0701	HAP - EC.02.05.01/EP8	Standard
§482.41(b)	A-0709	HAP - EC.02.03.01/EP1	Compliant
§482.41(b)(1)(i)	A-0710	HAP - LS.02.01.10/EP1, EP5, EP8, LS.02.01.20/EP1, EP13, EP30	Compliant

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CoP: §482.42 **Tag:** A-0747 **Deficiency:** Compliant

The Joint Commission
Summary of CMS Findings

Corresponds to: HAP - EC.02.05.01/EP15

Text: §482.42 Condition of Participation: Infection Control

The hospital must provide a sanitary environment to avoid sources and transmission of infections and communicable diseases. There must be an active program for the prevention, control, and investigation of infections and communicable diseases.

Official Accreditation Report

Johnson City Medical Center
400 North State of Franklin Rd
Johnson City, TN 37604

Organization Identification Number: 7844

Evidence of Standards Compliance (60 Day) Submitted: 6/1/2015

Executive Summary

Program(s)	Submit Date
Hospital Accreditation	6/1/2015

Hospital Accreditation : As a result of the accreditation activity conducted on the above date(s), there were no Requirements for Improvement identified.

You will have follow-up in the area(s) indicated below:

- Measure of Success (MOS) – A follow-up Measure of Success will occur in four (4) months.

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

Requirements for Improvement – Summary

Program	Standard	Level of Compliance
HAP	EC.02.03.05	Compliant
HAP	EC.02.05.01	Compliant
HAP	EC.02.06.01	Compliant
HAP	IC.02.01.01	Compliant
HAP	IC.02.02.01	Compliant
HAP	IM.02.02.03	Compliant
HAP	LD.01.03.01	Compliant
HAP	LD.04.01.05	Compliant
HAP	LS.02.01.30	Compliant
HAP	LS.02.01.35	Compliant
HAP	LS.02.01.50	Compliant
HAP	RC.01.01.01	Compliant
HAP	RC.01.02.01	Compliant
HAP	WT.05.01.01	Compliant

The Joint Commission
Summary of CMS Findings

CoP: §482.24 **Tag:** A-0431 **Deficiency:** Compliant

Corresponds to: HAP

Text: §482.24 Condition of Participation: Medical Record Services

The hospital must have a medical record service that has administrative responsibility for medical records. A medical record must be maintained for every individual evaluated or treated in the hospital.

CoP Standard	Tag	Corresponds to	Deficiency
§482.24(c)(1)	A-0450	HAP - RC.01.01.01/EP19	Compliant
§482.24(c)(2)	A-0450	HAP - RC.01.02.01/EP4, RC.01.01.01/EP19	Compliant

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CoP: §482.41 **Tag:** A-0700 **Deficiency:** Compliant

Corresponds to: HAP

Text: §482.41 Condition of Participation: Physical Environment

The hospital must be constructed, arranged, and maintained to ensure the safety of the patient, and to provide facilities for diagnosis and treatment and for special hospital services appropriate to the needs of the community.

CoP Standard	Tag	Corresponds to	Deficiency
§482.41(a)	A-0701	HAP - EC.02.06.01/EP1	Compliant
§482.41(c)(2)	A-0724	HAP - EC.02.03.05/EP15, EC.02.05.09/EP3	Compliant
§482.41(b)(1)(i)	A-0710	HAP - LS.02.01.30/EP2, EP18, LS.02.01.35/EP4, EP14, LS.02.01.50/EP12	Compliant
§482.41(c)(4)	A-0726	HAP - EC.02.06.01/EP13	Compliant

CoP: §482.42 **Tag:** A-0747 **Deficiency:** Compliant

Corresponds to: HAP - IC.02.01.01/EP1

Text: §482.42 Condition of Participation: Infection Control

The hospital must provide a sanitary environment to avoid sources and transmission of infections and communicable diseases. There must be an active program for the prevention, control, and investigation of infections and communicable diseases.

CoP: §482.51 **Tag:** A-0940 **Deficiency:** Compliant

Corresponds to: HAP - IC.02.02.01/EP4

The Joint Commission
Summary of CMS Findings

Text: §482.51 Condition of Participation: Surgical Services

If the hospital provides surgical services, the services must be well organized and provided in accordance with acceptable standards of practice. If outpatient surgical services are offered the services must be consistent in quality with inpatient care in accordance with the complexity of services offered.

CoP: §482.12 **Tag:** A-0043 **Deficiency:** Compliant

Corresponds to: HAP - LD.01.03.01/EP2

Text: §482.12 Condition of Participation: Governing Body

There must be an effective governing body that is legally responsible for the conduct of the hospital. If a hospital does not have an organized governing body, the persons legally responsible for the conduct of the hospital must carry out the functions specified in this part that pertain to the governing body.

ATTACHMENT B
PROOF OF PUBLICATION

Publication of Intent,

Johnson City Press

650 House for Rent

trailer,VIN# 4H7EU2028ET138825 Should Contact: Jim Abbott, 118 Allen Drive, Jonesborough? by certified mail, return receipt within 10 business days of the date of publication.
PUB:3T 10/8/16,10/9/16,10/10/16

One incorrect insertion and then only for the portion of the ad that is incorrect. ANY ERRORS SHOULD BE REPORTED IMMEDIATELY. 722-0509 Classifieds.

Legals

Legals

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Johnson City Medical Center (Name of Applicant) a hospital (Facility Type-Existing)

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to its main campus located at 400 N. State of Franklin Road, Johnson City, TN 37604. This project will not involve any other service for which a certificate of need is required. The estimated project cost is $2,023,108.

The anticipated date of filing the application is: October 14th 2016

The contact person for this project is Tony Benton (Contact Name), VP, COO (Title), who may be reached at: Mountain States Health Alliance (Company Name), 400 N. State of Franklin Road (Address), Johnson City (City), TN (State), 37604 (Zip Code), 423/431-1084 (Area Code / Phone Number)

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

920 Recreational Vehicles

I would like to buy a 1970 or 1971 Mercedes 280SL, or a 1961 - 1975 Jaguar XKE, or a Porsche 911, 912, or a 1970's or 1980's Ferrari. I am willing to buy running or not running. Any Condition. I'm a local guy living in Grainger County. If you have one or know of one please call Jason (865)621-4012

ATTACHMENT

Affidavit for Application

AFFIDAVIT

STATE OF Tennessee

COUNTY OF Washington

Tony Benton, being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. §68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

SIGNATURE/TITLE

Sworn to and subscribed before me this 13th day of October (Month), 2016 (Year) a Notary

Public in and for the County/State of Washington, TN.

NOTARY PUBLIC

My commission expires August 27th (Month/Day), 2019 (Year).

SHANNA A GODDARD
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF WASHINGTON

Supplemental #1
-COPY-

Johnson City Medical Center

CN1610-035

1. **Section A, Executive Summary**

How is the space proposed for the additional MRI unit currently being utilized? Will the proposed MRI unit displace another service? If yes, where will this service relocate?

Response: The proposed location for the additional MRI was identified because of its adjacency to the two other MRI units at JCMC's main campus. Portions of this identified space are currently considered part of Johnson City Medical Center's Emergency Department. Independently of the addition of the MRI unit, a project is underway to renovate a portion of the existing Emergency Department. This ED renovation project will result in additional space that will more than make up for the ED space that will be displaced as a result of this MRI project.

2. **Section A, Project Details, Item 9**

What medical group will be providing interpretation services? Will professional fees for MRI interpretation services by the identified radiologists be reimbursed by the applicant? If billing separately under their own provider certification/registration numbers, what assurances apply such that the radiologists will hold Medicare and Medicaid provider certification and will be contracted with the same TennCare MCO plans as the applicant? Please briefly discuss the arrangements planned in this regard.

Response: Mountain Empire Radiology, PC currently provides MRI interpretation services for Johnson City Medical Center, as well as several other Mountain States Health Alliance facilities, and will continue to provide the services resulting from this project. These radiologists make up one of the largest provider groups of diagnostic and interventional radiology services in the proposed project service area. Mountain Empire Radiology, PC does participate in the Medicare program and the same TennCare/Medicaid plans as JCMC, and the Agency can be assured that this will continue regarding services proposed in this application.

3. **Section B, Need, Item 1 (Project Specific Criteria-Magnetic Resonance Imaging 4.)**

Please revise the "Utilization of existing service area MRIs" chart as follows:

- *Include rows that will identify the utilization for the MRI units associated with Appalachian Orthopedic Associates.*
- *Add a column that will identify how each site's 2015 utilization compares to the 2,880 optimal utilization standard.*

Response: The following tables display utilization of the existing MRI units in the project service area. The first table includes the data for those units operated by Appalachian Orthopaedic Associates in Johnson City and Kingsport. Please note that each of these units reported no procedure volume in 2015; the second table, which was included in the original application, excludes Appalachian Orthopaedic's MRI units to show utilization for only those units that reported procedure volume. Mountain States is currently unaware of the details of the operation status for Appalachian Orthopaedic's MRI units.

A column has also been included for each table to show each site's 2015 utilization compared to the standard of 2,880 procedures. The following formula was used in calculating the 2015 utilization percentage for each site and for the service area as a whole:
(2015 MRI Procedures)/(2015 # of MRI Units)/2,880 = Utilization as % of 2,880

Example for Johnson City Medical Center's Main Campus:
6,467 procedures / 2 MRI Units / 2,880 = 6,467/2/2,880 = 3,223.5/2,880 = 112.3%

MRI Service Area Utilization – Including Appalachian Orthopaedic Associates (Johnson City and Kingsport)

			# MRI Units			Procedures			2015 Utilization
County	Type	Facility	2013	2014	2015	2013	2014	2015	as % of 2,880
Washington	HOSP	Johnson City Medical Center	2	2	2	6,617	6,575	6,467	112.3%
	ODC	Mountain States Imaging at Med Tech Parkway	1	1	1	2,448	2,328	2,666	92.6%
	HOSP	Franklin Woods Community Hospital	1	1	1	3,529	3,772	4,432	153.9%
	PO	Watauga Orthopaedics, PLC	1	1	1	2,337	2,221	2,465	85.6%
	PO	Appalachian Orthopaedic Associates - Johnson City	1	1	1	188	123	0	0.0%
Carter	HOSP	Sycamore Shoals Hospital[1]	1	1	0.85	1,719	1,880	1,818	74.3%
	PO	Medical Care, PLLC[1]	-	-	0.15	-	-	126	29.2%
Sullivan	HOSP	Bristol Regional Medical Center	2	2	2	6,323	6,151	8,452	146.7%
	HODC	Holston Valley Imaging Center, LLC	3	3	3	8,787	6,516	8,970	103.8%
	HOSP	Holston Valley Medical Center	1	1	1	3,326	2,867	3,148	109.3%
	HOSP	Indian Path Medical Center	1	1	1	2,807	2,913	3,173	110.2%
	ODC	Meadowview Outpatient Diagnostic Center	1	1	1	4,350	4,187	4,178	145.1%
	ODC	Sapling Grove Outpatient Diagnostic Center	1	1	1	2,245	2,231	2,158	74.9%
	HODC	Volunteer Parkway Imaging Center	1	1	1	1,239	1,153	1,413	49.1%
	PO	Appalachian Orthopaedic Associates, PC	1	1	1	214	183	0	0.0%
Greene	HOSP	Laughlin Memorial Hospital, Inc.	2	2	2	3,159	3,248	3,284	57.0%
	HOSP	Takoma Regional Hospital	1	1	1	1,610	2,224	1,880	65.3%
		Service Area Total	21	21	21	50,898	48,572	54,630	90.3%
		Historical Procedures per MRI				2,424	2,313	2,601	

Source: Health Services and Development Agency Medical Equipment Registry Statistics

1) Medical Care, PLLC began utilizing Sycamore Shoals Hospital's MRI unit in 2015, under contract, 3 half-days per week.

MRI Service Area Utilization – Excluding Appalachian Orthopaedic Associates (Johnson City and Kingsport)

			# MRI Units			Procedures			2015 Utilization
County	Type	Facility	2013	2014	2015	2013	2014	2015	as % of 2,880
Washington	HOSP	Johnson City Medical Center	2	2	2	6,617	6,575	6,467	112.3%
	ODC	Mountain States Imaging at Med Tech Parkway	1	1	1	2,448	2,328	2,666	92.6%
	HOSP	Franklin Woods Community Hospital	1	1	1	3,529	3,772	4,432	153.9%
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Carter	HOSP	Sycamore Shoals Hospital[1]	1	1	0.85	1,719	1,880	1,818	74.3%
	PO	Medical Care, PLLC[1]	-	-	0.15	-	-	126	29.2%
Sullivan	HOSP	Bristol Regional Medical Center	2	2	2	6,323	6,151	8,452	146.7%
	HODC	Holston Valley Imaging Center, LLC	3	3	3	8,787	6,516	8,970	103.8%
	HOSP	Holston Valley Medical Center	1	1	1	3,326	2,867	3,148	109.3%
	HOSP	Indian Path Medical Center	1	1	1	2,807	2,913	3,173	110.2%
	ODC	Meadowview Outpatient Diagnostic Center	1	1	1	4,350	4,187	4,178	145.1%
	ODC	Sapling Grove Outpatient Diagnostic Center	1	1	1	2,245	2,231	2,158	74.9%
	HODC	Volunteer Parkway Imaging Center	1	1	1	1,239	1,153	1,413	49.1%
Greene	HOSP	Laughlin Memorial Hospital, Inc.	2	2	2	3,159	3,248	3,284	57.0%
	HOSP	Takoma Regional Hospital	1	1	1	1,610	2,224	1,880	65.3%
		Service Area Total	19	19	19	50,496	48,266	54,630	99.8%
		Historical Procedures per MRI				2,658	2,540	2,875	

Source: Health Services and Development Agency Medical Equipment Registry Statistics

1) Medical Care, PLLC began utilizing Sycamore Shoals Hospital's MRI unit in 2015, under contract, 3 half-days per week.

4. Section B, Need. Item 5 (Historical MRI Utilization in Applicant's Primary Service Area)

It appears that the MRI unit at the Mountain States ODC is currently not meeting the MRI utilization standard. Please explain why the applicant did not consider shifting more patients to the ODC as an alternative to acquiring another MRI unit.

Response: Successful initiatives to offload capacity to other sites have been implemented, including opening availability on nights and weekends at FWCH and scheduling of appropriate patients at Mountain States ODC, as demonstrated by the increase in volumes for both FWCH and Mountain States ODC. However, the distinct types of procedures that can be performed in each setting (JCMC vs. Mountain States ODC) do not allow for more significant shifts in patient volume. JCMC will continue to identify opportunities to redirect appropriate patients to the ODC, but the primary need for this project is hinged on increasing capacity for complex procedures that cannot be performed at an ODC. Moreover, several types of complex MRI procedures can only be performed locally at Johnson City Medical Center, and wait times at JCMC for complex procedures like pediatric and sedation procedures are currently multiple weeks.

5. Section B, Need, Item 6 (Applicant's Historical and Projected Utilization)

Will the volume shifting to the proposed MRI scanner result in either Franklin Woods Community and/or Indian Path Medical Center no longer being able to attain the MRI optimal utilization standard?

Response: Considering the current wait times at Johnson City Medical Center and the procedure volumes for both Franklin Woods Community Hospital (FWCH) and Indian Path Medical Center (IPMC), it is expected that each of these

hospitals will continue to meet the optimal utilization standard of 2,880 procedures annually. FWCH and IPMC are currently well above the utilization standard, as demonstrated in Question #2 of this set of supplemental questions. The additional capacity as a result of this project will, more importantly, decrease wait times and more effectively meet the demand already present by allowing for an additional entry point to access MRI services.

6. **Section B, Economic Feasibility Item 1 (Project Costs Chart)**

Are all the costs associated with the MRI equipment including installation of the equipment as detailed in Item 1.C. on page 30 of the application included in the Project Costs Chart? If not, please make the necessary adjustments.

Response: All equipment costs including installation have been appropriately reflected in the Project Costs Chart. Rigging and installation costs for this project are included in the quote from Siemens. These items are listed on page 5 and 6 of the quote included with the original application (Attachment A-13B) as "MR Standard Rigging and Installation" and "Additional Rigging MR."

7. **Section B, Economic Feasibility Item 3 (Historical Data Chart)**

Please submit a Historical Data Chart for Johnson City Medical Center in total.

Response: A Historical Data Chart for Johnson City Medical Center in total is included in Attachment 1.

Please complete a Historical Data Chart-Other Expenses for the Project Only and the Total Facility.

Response: A Historical Data Chart-Other Expenses for Johnson City Medical Center in total is included with the Historical Data Chart for JCMC provided in Attachment 1. A Historical Data Chart-Other Expenses for the Project Only is included in Attachment 2.

Please explain why depreciation decreases by almost 60% between FY2014 and FY2015.

Response: The reason behind the decrease in depreciation is that three assets were changed from a 5-year life to a 10-year life beginning in July 2014, which was the first month in MSHA's FY2015. Johnson City Medical Center also had three assets that fully depreciated in FY2014.

8. **Section B, Economic Feasibility Item 4 (Projected Data Chart)**

Please submit a Projected Data Chart for Johnson City Medical Center in total and one for total MRI services including a completed Other Expense chart for both.

Response: A Projected Data Chart, including Other Expense chart, for Johnson City Medical Center in total is included in Attachment 3. A Projected Data Chart, including Other Expense chart, for Total JCMC MRI services is included in Attachment 4.

9. **Section B, Economic Feasibility Item 5.A.**

Please explain why the applicant is forecasting that the average net charge for an MRI procedure will decrease by 20% when compared to 2015.

Response: The data provided in the original application for Year 1 and Year 2 is based on incremental volume only, which is what was listed in Projected Data Chart of the application. The table below includes updated information based on the Projected Data Chart provided in Attachment 4 for total MRI services.

	Previous Year	Current Year	Year One	Year Two	% Change (Current Year to Year 2)
Gross Charge *(Gross Operating Revenue/Utilization Data)*	$4,093	$3,911	$4,063	$4,143	5.9%
Deduction from Revenue *(Total Deductions/Utilization Data)*	$3,560	$3,371	$3,523	$3,592	6.5%
Average Net Charge *(Net Operating Revenue/Utilization Data)*	$533	$540	$540	$551	2.1%

10. Section B, Economic Feasibility Item 5.C.

Your response to this item is noted. Please compare the projected average gross charge per procedure for the project to the Gross Charge/Procedure Range by Quartile for all MRI providers, which can be found in the Applicant's Toolbox on the HSDA website.

Response: Based on data from the Medical Equipment Registry, the average charge per MRI procedure in 2015 for Johnson City Medical Center, including procedures for Mountain States Imaging at Med Tech Parkway, was $4,639, which is higher than the 3rd Quartile for all MRI providers according to the HSDA website.

Please note that there is a difference in average gross charge per MRI procedure when comparing Questions #9 and #10 for the following reasons:

- The Medical Equipment Registry data used for Question #10 is based on Calendar Year 2015, while the data used for Question #9 is based on MSHA's Fiscal Year 2015 (July 2014 – June 2015).
- For the Medical Equipment Registry, gross charges are charges from the MRI departments of JCMC and Mountain States ODC, and volumes include both inpatient and outpatient procedures. Gross charges for the Historical Data Chart include only charges for outpatient visits in which an MRI was performed. MSHA receives a large portion of payments based off of case rates. For certain OP case rates, such as ED or Observation cases, it cannot be determined how much of the case rate revenue should be allotted to the MRI. The charges reflected in the Historical Data Chart are based on the entire case rate payment for any outpatient who had an MRI procedure.
- Also relative to gross charges, JCMC reduced charges in its MRI departments by 5.4% in FY16, which began July 1, 2015, as part of a strategic pricing initiative. This does impact the gross charges reflected in Questions #9 and #10 because of the different timeframes.

11. Section B, Economic Feasibility Item 6.C.

Please complete the calculation for the Capitalization Ratio as instructed on the Application Form. Please note that there is a typo on the Application Form. The formula should read (Long-Term Debt)/ (Long term Debt + Total Equity) (Net Assets)) X100.

Response: The following data is for Mountain States Health Alliance for FY2015:

Long term debt - $1,031,660,759
Total Equity (Net Assets) - $787,905,897

Capitalization Ratio = $1,031,660,759 / ($1,031,660,759 + $787,905,897) x 100 = $1,031,660,759 / $1,819,566,656 x 100= .5670 x 100 = 56.70

12. Section B, Orderly Development Item 6.A.and B.

Please include information pertaining to CN1606-021, East Tennessee Healthcare Holdings, Inc. since Mountain States Health Alliance has an ownership interest.

Response: East Tennessee Healthcare Holdings, Inc., which consists of Mountain States Health Alliance and East Tennessee State University Research Foundation (50% membership each), applied on May 17, 2016, for the establishment of a non-residential substitution based treatment center for opiate addiction to be located at 203 Gray Commons Circle, Johnson City (Washington County), TN 37615. More detailed information about this project is provided below:

Outstanding Projects

CON Number	Project Name	Date Approved	*Annual Progress Report(s)		Expiration Date
			Due Date	Date Filed	
CN1606-021	East Tennessee Healthcare Holdings, Inc.	August 24, 2016	September 1, 2017*	n/a	September 1, 2018*

*Official Certificate of Need for CN1606-021 listing "date issued" and "expiration date" has not been received yet. Due date and expiration date in table above are estimated based on approval date.

13. Section B, Orderly Development Item 7.A.and B.

These items refer to all fixed and mobile equipment owned or leased by the applicant and its satellite facilities. Please expand your response to all affected facilities.

Response: Johnson County Community Hospital in Mountain City (Johnson County), TN, utilizes mobile MRI through a lease with Millennium Healthcare, Inc. Indian Path Medical Center in Kingsport (Sullivan County), TN, utilizes mobile PET services through a lease with Invivo Molecular Imaging.

Mountain States Health Alliance
Johnson City Medical Center MRI Project
Certificate of Need Supplemental Information Attachments

Attachment 1: Historical Data Chart for Johnson City Medical Center in Total

Attachment 2: Historical Data Chart – Other Expenses for Project Only

Attachment 3: Projected Data Chart for Johnson City Medical Center in Total

Attachment 4: Projected Data Chart for Total Johnson City Medical Center MRI Services

Attachment: Affidavit for Supplemental Information

SUPPLEMENTAL #1
October 27, 2016
10:46 am

ATTACHMENT 1

Historical Data Chart for Johnson City Medical Center in Total

SUPPLEMENTAL #1
October 27, 2016
10:46 am

[X] Total Facility
[ ] Project Only

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in **July** (Month).

		Year FY2014	Year FY2015	Year FY2016
A.	Utilization Data - Patient Days	130,407	129,559	129,415
B.	Revenue from Services to Patients			
1.	Inpatient Services	1,261,756,647	1,371,398,374	1,498,056,993
2.	Outpatient Services	781,203,307	903,823,976	996,880,313
3.	Emergency Services			
4.	Other Operating Revenue - Sales, Rebates, Rentals	10,581,953	4,704,759	5,816,283
	Gross Operating Revenue	**2,053,541,908**	**2,279,927,109**	**2,500,753,589**
C.	Deductions from Gross Operating Revenue			
1.	Contractual Adjustments	1,551,293,701	1,771,165,196	1,988,070,033
2.	Provision for Charity Care	90,618,603	79,999,304	79,317,813
3.	Provisions for Bad Debt	5,863,379	6,782,665	8,438,422
	Total Deductions	**1,647,775,683**	**1,857,947,165**	**2,075,826,269**
NET OPERATING REVENUE		**405,766,225**	**421,979,944**	**424,927,320**
D.	Operating Expenses			
1.	Salaries and Wages	122,847,055	110,944,408	113,230,422
2.	Physician's Salaries and Wages			
3.	Supplies	88,675,272	94,054,395	98,071,443
4.	Rent			
a.	Paid to Affiliates			
b.	Paid to Non-Affiliates			
5.	Management Fees			
a.	Paid to Affiliates	58,798,969	60,092,306	64,992,455
b.	Paid to Non-Affiliates			
6.	Other Operating Expenses	69,332,855	61,340,287	61,913,817
	Total Operating Expenses	**339,654,151**	**326,431,396**	**338,208,137**
E.	**Earnings Before Interest, Taxes and Depreciation**	**66,112,074**	**95,548,548**	86,719,183
F.	Non-Operating Expenses			
1.	Taxes + Interest	15,736,535	16,318,401	16,891,984
2.	Depreciation	20,332,137	19,177,857	19,467,655
3.	Amortization	47,587	47,587	47,587
4.	Other Non-Operating Expenses			
	Total Non-Operating Expenses	**36,116,259**	**35,543,845**	**36,407,227**
NET INCOME (LOSS)		**29,995,815**	**60,004,703**	**50,311,956**

Chart Continues Onto Next Page

NET INCOME (LOSS)	29,995,815	60,004,703	50,311,956
G. Other Deductions			
1. Annual Principal Debt Repayment			
2. Annual Capital Expenditure			
Total Other Deductions			
NET BALANCE	29,995,815	60,004,703	50,311,956
DEPRECIATION	20,332,137	19,177,857	19,467,655
FREE CASH FLOW (Net Balance + Depreciation)	50,327,952	79,182,560	69,779,611

☒ Total Facility

☐ Project Only

HISTORICAL DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year FY14	Year FY15	Year FY16
1. Contract Labor	3,386,466	3,095,657	3,789,602
2. Employee Benefits	26,854,888	29,194,589	28,481,492
3. Utilities	5,246,550	5,393,972	5,225,468
4. Other Expense (Insurance, Travel, Repairs, Marketing, etc.)	17,186,673	23,656,069	24,417,255
5. Consolidation Allocation	16,658,279		
6. _____			
7. _____			
Total Other Expenses	**69,332,855**	**61,340,287**	**61,913,817**

SUPPLEMENTAL #1
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ATTACHMENT 2

Historical Data Chart – Other Expenses for Project Only

SUPPLEMENTAL #1
October 27, 2016
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☐ Total Facility
☒ Project Only

HISTORICAL DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year FY14	Year FY15	Year FY16
1. Employee Benefits	$259,432	$230,186	$218,410
2. Professional Services Contract	$448,866	$449,083	$449,083
3. Insurance, Utilities, Travel, Mileage, Other	$850,936	$844,821	$754,860
4.			
5.			
6.			
7.			
Total Other Expenses	**$1,559,234**	**$1,524,090**	**$1,422,353**

SUPPLEMENTAL #1
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ATTACHMENT 3

Projected Data Chart for Johnson City Medical Center in Total

SUPPLEMENTAL #1
October 27, 2016
10:46 am

☒ Total Facility
☐ Project Only

PROJECTED DATA CHART

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July (Month).

		Year FY2018	Year FY2019
A.	Utilization Data - Patient Days	**112,079**	**111,866**
B.	Revenue from Services to Patients		
1.	Inpatient Services	1,429,823,000	1,498,461,000
2.	Outpatient Services	1,144,386,000	1,222,513,000
3.	Emergency Services		
4.	Other Operating Revenue (Specify) Sales, Rebates, Rentals	4,795,000	4,700,000
	Gross Operating Revenue	**$2,579,004,000**	**$2,725,674,000**
C	Deductions from Gross Operating Revenue		
1.	Contractual Adjustments	$2,058,167,000	$2,196,024,000
2.	Provision for Charity Care	$87,583,000	$90,588,000
3.	Provisions for Bad Debt	$7,453,000	$7,878,000
	Total Deductions	**$2,153,203,000**	**$2,294,490,000**
NET OPERATING REVENUE		**$425,801,000**	**$431,184,000**
D.	Operating Expenses		
1.	Salaries and Wages	$114,189,000	$115,986,000
a.	Direct Patient Care		
b.	Non-Patient Care		
2.	Physician's Salaries and Wages		
3.	Supplies	$97,973,000	$99,465,000
4.	Rent		
a.	Paid to Affiliates		
b.	Paid to Non-Affiliates		
5.	Management Fees:		
a.	Paid to Affiliates	$63,224,000	$63,224,000
b.	Paid to Non-Affiliates		
6.	Other Operating Expenses	$60,706,000	$61,452,000
	Total Operating Expenses	**$336,092,000**	**$340,127,000**
E.	**Earnings Before Interest, Taxes and Depreciation**	**$89,709,000**	**$91,057,000**
F.	Non-Operating Expenses		
1.	Taxes		
2.	Depreciation	$20,602,000	$20,118,000
3.	Interest	$13,339,000	$13,102,000
4.	Other Non-Operating Expenses		
	Total Non-Operating Expenses	**$33,941,000**	**$33,220,000**
NET INCOME (LOSS)		$55,768,000	$57,837,000

Chart Continues Onto Next Page

SUPPLEMENTAL #1
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NET INCOME (LOSS)	$55,768,000	$57,837,000
G. Other Deductions		
1. Estimated Annual Principal Debt Repayment		
2. Annual Capital Expenditure		
Total Other Deductions	$	$
NET BALANCE	$55,768,000	$57,837,000
DEPRECIATION	$20,602,000	$20,118,000
FREE CASH FLOW (Net Balance + Depreciation)	$76,370,000	$77,955,000

☒ Total Facility
☐ Project Only

PROJECTED DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES		Year FY2018	Year FY2019
1.	Employee Benefits	28,346,000	28,790,000
2.	Utilities	5,683,000	5,769,000
3.	Other Expense (Insurance, Travel, Repairs, Marketing, etc.)	26,677,000	26,893,000
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
	Total Other Expenses	60,706,000	61,452,000

SUPPLEMENTAL #1
October 27, 2016
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ATTACHMENT 4

Projected Data Chart for Total Johnson City Medical Center MRI Services

SUPPLEMENTAL #1
October 27, 2016
10:46 am

PROJECTED DATA CHART TOTAL MRI* ☐ Total Facility ☒ Project Only

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July (Month).

		Year FY2018	Year FY2019
A.	Utilization Data - Inpatient & Outpatient Procedures	**10,365**	**10,373**
B.	Revenue from Services to Patients		
	1. Inpatient Services		
	2. Outpatient Services	$42,112,529	$42,972,091
	3. Emergency Services		
	4. Other Operating Revenue (Specify)_____		
	Gross Operating Revenue	**$42,112,529**	**$42,972,091**
C	Deductions from Gross Operating Revenue		
	1. Contractual Adjustments	$35,491,773	$36,218,212
	2. Provision for Charity Care	$454,853	$464,202
	3. Provisions for Bad Debt	$564,095	$574,896
	Total Deductions	**$36,510,721**	**$37,257,310**
NET OPERATING REVENUE		**$5,601,808**	**$5,714,780**
D.	Operating Expenses		
	1. Salaries and Wages		
	a. Direct Patient Care	$716,948	$732,954
	b. Non-Patient Care	$332,693	$340,120
	2. Physician's Salaries and Wages		
	3. Supplies	$264,512	$270,269
	4. Rent		
	a. Paid to Affiliates		
	b. Paid to Non-Affiliates		
	5. Management Fees:		
	a. Paid to Affiliates		
	b. Paid to Non-Affiliates		
	6. Other Operating Expenses	$1,576,061	$1,607,915
	Total Operating Expenses	**$2,890,214**	**$2,951,258**
E.	**Earnings Before Interest, Taxes and Depreciation**	**$2,711,594**	**$2,763,522**
F.	Non-Operating Expenses		
	1. Taxes		
	2. Depreciation	$539,640	$547,606
	3. Interest	$96,984	$99,013
	4. Other Non-Operating Expenses		
	Total Non-Operating Expenses	**$636,624**	**$646,619**
NET INCOME (LOSS)		**$2,074,970**	**$2,116,902**

Chart Continues Onto Next Page

***NOTE:** Revenue and expenses in Projected Data Chart are for outpatient services only because Inpatient MRI procedures are covered under applicable DRGs, and there is no inpatient revenue attributable to these scans.

NET INCOME (LOSS)	$2,074,970	$2,116,902
G. Other Deductions		
1. Estimated Annual Principal Debt Repayment		
2. Annual Capital Expenditure		
Total Other Deductions	$	$
NET BALANCE	$2,074,970	$2,116,902
DEPRECIATION	$539,640	$547,606
FREE CASH FLOW (Net Balance + Depreciation)	$2,614,610	$2,664,508

☐ Total Facility

☒ Project Only

PROJECTED DATA CHART-OTHER EXPENSES TOTAL MRI

	OTHER EXPENSES CATEGORIES	Year FY2018	Year FY2019
1.	Maintenance Contracts	$571,369	$582,112
2.	Employee Benefits	$231,153	$236,076
3.	Insurance, Utilities, Travel, Mileage, Other	$773,538	$789,727
4.			
5.			
6.			
7.			
	Total Other Expenses	**$1,576,061**	**$1,607,915**

SUPPLEMENTAL #1
October 27, 2016
10:46 am

ATTACHMENT

Affidavit for Supplemental Information

SUPPLEMENTAL #1
October 27, 2016
10:46 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Washington

NAME OF FACILITY: Johnson City Medical Center

I, Tony Benton, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Signature/Title VP/COO Washington County Operations

Sworn to and subscribed before me, a Notary Public, this the 26th day of October, 2016, witness my hand at office in the County of Washington, State of Tennessee.

NOTARY PUBLIC

My commission expires August 27th, 2019.

SHANNA A GODDARD
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF WASHINGTON

HF-0043

Revised 7/02

Supplemental #2
-COPY-

Johnson City Medical

CN1610-035

SUPPLEMENTAL #a
October 31, 2016
11:04 am

1. **Section B, Orderly Development Item 7.A.and B.**

Your response to this item is noted. Please expand your response to include all equipment (CT scanners, linear accelerators, MRI scanners, and PET Scanners) both mobile and fixed for all Mountain States Health Alliance facilities in Tennessee.

Response: The table below includes a listing of all mobile and fixed equipment (CT, Linear Accelerators, MRI, and PET) for Mountain States Health Alliance facilities in Tennessee.

Equipment Type by MSHA Facility	Owned/Leased	Fixed/Mobile	Scanner Type	Leased from:
CT Scanners				
Franklin Woods Community Hospital	Owned	Fixed	64 slice	-
Franklin Woods Community Hospital	Owned	Fixed	16 slice	-
Indian Path Medical Center	Owned	Fixed	64 slice	-
Indian Path Medical Center	Owned	Fixed	16 slice	-
Indian Path Medical Center	Owned	Fixed	Single slice	-
Johnson County Community Hospital	Owned	Fixed	16 slice	-
Johnson City Medical Center	Owned	Fixed	128 dual head	-
Johnson City Medical Center	Owned	Fixed	64 slice	-
Johnson City Medical Center	Owned	Fixed	16 slice	-
Johnson City Medical Center	Owned	Fixed	16 slice	-
Mountain States Imaging at Med Tech Parkway	Owned	Fixed	64 slice	-
Sycamore Shoals Hospital	Owned	Fixed	64 slice	-
Unicoi County Memorial Hospital	Owned	Fixed	64 slice	-
MRI Scanners				
Franklin Woods Community Hospital	Owned	Fixed	3T Short/Wide Bore	-
Indian Path Medical Center	Owned	Fixed	1.5T Short Bore	-
Johnson County Community Hospital	Leased	Mobile	1.5T Short Bore	New Millennium Healthcare, Inc.
Johnson City Medical Center	Owned	Fixed	3T Short Bore	-
Johnson City Medical Center	Owned	Fixed	1T Open	-
Mountain States Imaging at Med Tech Parkway	Owned	Fixed	1.5T Short Bore	-
Sycamore Shoals Hospital	Owned	Fixed	1.5T Wide Bore	-
Unicoi County Memorial Hospital	Owned	Fixed	1.5T Closed	-
Linear Accelerators				
Indian Path Medical Center	Owned	Fixed	Dual energy, Photon	-
Johnson City Medical Center	Owned	Fixed	Dual energy, Photon Electron	-
Johnson City Medical Center	Owned	Fixed	Dual energy, Photon Electron	-
PET Scanners				
Indian Path Medical Center	Leased	Mobile	PET/CT	Invivo Molecular Imaging
Johnson City Medical Center	Leased	Fixed	PET/CT	GE

SUPPLEMENTAL #3
October 31, 2016
11:04 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Washington

NAME OF FACILITY: Johnson City Medical Center

I, Tony Benton, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Signature/Title VP/COO Washington County Operations

Sworn to and subscribed before me, a Notary Public, this the 28th day of October, 2016, witness my hand at office in the County of Washington, State of Tennessee.

Shanna A. Goddard
NOTARY PUBLIC

My commission expires August 27th, 2019.

SHANNA A GODDARD
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF WASHINGTON

HF-0043

Revised 7/02

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Johnson City Press (Name of Newspaper) which is a newspaper of general circulation in Washington (County), Tennessee, on or before October 10th (Month / day), 2016 (Year), for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Johnson City Medical Center (Name of Applicant) a hospital (Facility Type-Existing)

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to its main campus located at 400 N. State of Franklin Road, Johnson City, TN 37604. This project will not involve any other service for which a certificate of need is required. The estimated project cost is $2,023,108.

The anticipated date of filing the application is: October 14th, 2016

The contact person for this project is Tony Benton (Contact Name) VP, COO (Title)

who may be reached at: Mountain States Health Alliance (Company Name) 400 N. State of Franklin Road (Address)

Johnson City (City)	TN (State)	37604 (Zip Code)	423/431-1084 (Area Code / Phone Number)
(Signature)		10/7/2016 (Date)	BentonGT@msha.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

MOUNTAIN STATES HEALTH ALLIANCE

400 N. State of Franklin Road • Johnson City, TN 37604
423-431-6111

October 7, 2016

Ms. Melanie Hill
Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street Nashville, TN 37243

Dear Ms. Hill:

Please find enclosed the original and two copies of Mountain States Health Alliance's letter of intent for the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to its main campus located at 400 N. State of Franklin Road, Johnson City, TN 37604.

If you have any questions, please do not hesitate to contact me at 423-431-1084. I look forward to working with you throughout this process.

Sincerely,

Tony Benton
Vice President, COO Johnson City Medical Center

RULES
OF
HEALTH SERVICES AND DEVELOPMENT AGENCY

CHAPTER 0720-11
CERTIFICATE OF NEED PROGRAM – GENERAL CRITERIA

TABLE OF CONTENTS

0720-11-.01 GENERAL CRITERIA FOR CERTIFICATE OF NEED. The Agency will consider the following general criteria in determining whether an application for a certificate of need should be granted:

(1) Need. The health care needed in the area to be served may be evaluated upon the following factors:

(a) The relationship of the proposal to any existing applicable plans;

(b) The population served by the proposal;

(c) The existing or certified services or institutions in the area;

(d) The reasonableness of the service area;

(e) The special needs of the service area population, including the accessibility to consumers, particularly women, racial and ethnic minorities, TennCare participants, and low-income groups;

(f) Comparison of utilization/occupancy trends and services offered by other area providers;

(g) The extent to which Medicare, Medicaid, TennCare, medically indigent, charity care patients and low income patients will be served by the project. In determining whether this criteria is met, the Agency shall consider how the applicant has assessed that providers of services which will operate in conjunction with the project will also meet these needs.

(2) Economic Factors. The probability that the proposal can be economically accomplished and maintained may be evaluated upon the following factors:

(a) Whether adequate funds are available to the applicant to complete the project;

(b) The reasonableness of the proposed project costs;

(c) Anticipated revenue from the proposed project and the impact on existing patient charges;

(d) Participation in state/federal revenue programs;

(e) Alternatives considered; and

(f) The availability of less costly or more effective alternative methods of providing the benefits intended by the proposal.

(3) Contribution to the Orderly Development of Adequate and Effective Healthcare Facilities and/or Services. The contribution which the proposed project will make to the orderly development of an adequate and effective health care system may be evaluated upon the following factors:

(Rule 0720-11-.01, continued)

(a) The relationship of the proposal to the existing health care system (for example: transfer agreements, contractual agreements for health services, the applicant's proposed TennCare participation, affiliation of the project with health professional schools);

(b) The positive or negative effects attributed to duplication or competition;

(c) The availability and accessibility of human resources required by the proposal, including consumers and related providers;

(d) The quality of the proposed project in relation to applicable governmental or professional standards.

(4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, The Agency may consider, in addition to the foregoing factors, the following factors:

(a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change to the proposed new site.

(b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

(c) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

(5) Certificate of need conditions. In accordance with T.C.A. § 68-11-1609, The Agency, in its discretion, may place such conditions upon a certificate of need it deems appropriate and enforceable to meet the applicable criteria as defined in statute and in these rules.

Authority: *T.C.A. §§ 4-5-202, 68-11-1605, and 68-11-1609.* ***Administrative History:*** *Original rule filed August 31, 2005; effective November 14, 2005.*

CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
615-741-1954

DATE: December 31, 2016

APPLICANT: Johnson City Medical Center
400 North State of Franklin Road
Johnson City, Tennessee 37604

CONTACT PERSON: Tony Benton, Vice President, Chief Operating Officer
400 North State of Franklin Road
Johnson City, Tennessee 37604

COST: $2,023,108

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:
The applicant, Johnson City Medical Center(JCMC) seeks Certificate of Need (CON) approval for the addition of a 1.5 Tesla magnetic resonance imaging (MRI) scanner to be located on the main campus located at 400 N. State of Franklin Road, Johnson City, Tennessee 37604. This project will not involve any other service for which a CON is required.

Johnson City Medical Center is the flagship hospital for Mountain States Health Alliance (MSHA), a large integrated not-for-profit health care system based in Johnson City. A chart containing the organizational structure of MSHA is located in Attachment A-4B.

The total project cost is $2,023,108 and will be funded through cash reserves as attested to by the Chief Financial Officer in Attachment B, Economic Feasibility-2.

This application has been placed on the Consent Calendar. Tenn. Code Ann. § 68-11-1608 Section (d) states the executive director of Health Services and Development Agency may establish a date of less than sixty (60) days for reports on applications that are to be considered for a consent or emergency calendar established in accordance with agency rule. Any such rule shall provide that, in order to qualify for the consent calendar, an application must not be opposed by any person with legal standing to oppose and the application must appear to meet the established criteria for the issuance of a certificate of need. If opposition is stated in writing prior to the application being formally considered by the agency, it shall be taken off the consent calendar and placed on the next regular agenda, unless waived by the parties.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan.*

NEED:
JCMC is a regional tertiary referral center that provides high acuity services and as such, JCMC receives patients from across the entire MSHA service area; however, the majority, or 77% of their patient volume comes from Carter, Green, Sullivan, and Washington counties. The following chart contains the 2016 to 2020 projected population for this service area.

County	2016 Population	2020 Population	% of Increase/ (Decrease)
Carter	58,138	58,375	0.4%
Greene	72,512	74,656	0.3%
Sullivan	158,938	159,749	0.5%
Washington	133,817	140,905	5.3%
Total	**423,406**	**433,685**	**2.4%**

Tennessee Population Projections 2000-2020, 2015 Revised UTCBER, Tennessee Department of Health

The applicant's proposed project is an addition of a 1.5 Tesla MRI scanner to the main campus of the JCMC located at 400 North State of Franklin Road in Johnson City, Tennessee. The addition of this MRI will be added to the services provided to inpatients, outpatients, and patients requiring emergency services. The clinical applications include MRI procedures requiring sedation, anesthesia, for both adults and pediatric patients. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, orthopedic imaging, high resolution angiography, abdominal imaging, and total body imaging utilized for oncology studies.

JCMC currently has 2 fixed MRI units at its main campus, as well as 1 fixed unit at Mountain States Imaging at Med Tech Park. The following chart shows the utilization of the service area MRIs according to the HSDA equipment registry.

The average number of procedures at JCMC, including the unit at Mountain States Imaging at Med Tech Park was 3044 in 2015. The 2 units on JCMC's main campus average 3234 procedures per unit in 2015. The HSDA Medical Equipment Registry data from 2015 demonstrates that the average number of procedures per unit in the service area was 2875 procedures per unit, which was just under the 2880 per unit, and will likely exceed that number in 2016.

Service Area MRI Utilization

County	Facility	Number of Units	2013	2014	2015
Carter	Sycamore Shoals Hospital	.85	1719	1880	1818
Carter	Medical Care PLLC	.15			126
Greene	Laughlin Memorial Hospital	2	3159	3248	3284
Greene	Takoma Regional Hospital	1	1610	2224	1880
Sullivan	Appalachian Associates PC	1	214	183	0
Sullivan	Bristol Regional Medical Center	2	6323	6151	8452
Sullivan	Holston Valley Imaging	3	8787	6516	8970
Sullivan	Holston Valley Medical Center	1	3326	2867	3148
Sullivan	Indian Path Medical Center	1	2807	2913	3173
Sullivan	Meadowview Outpatient Diagnostic Center	1	4350	4187	4178
Sullivan	Sapling Grove Outpatient Diagnostic Center	1	2245	2231	2158
Sullivan	Volunteer Parkway	1	1239	1153	1413

	Imaging Center				
Washington	Appalachian Orthopaedic Associates	1	188	123	0
Washington	Franklin Woods Community Hospital	1	3529	3772	4432
Washington	Johnson City Medical Center	2	6617	6575	6467
Washington	Mountain States Medical Center at Med Tech Pkwy	1	2448	2328	2666
Washington	Watauga Orthopedics	1	2337	2221	2465
	Total	**21**	**50,496**	**48,572**	**54,630**

HSDA Equipment Registry

The service area utilization is 90.3% of capacity, while JCMC is 112.3% of capacity (2880).

The applicant believes that adding a new 1.5 Tesla MRI is the most cost effective way to address the need for MRI procedures and reduce the lengthy wait times that are currently being experienced.

The applicant does not believe the additional MRI at JCMC will negatively impact other providers in the service area. The additional capacity will provide access for those seeking highly complex procedures offered at JCMC.

TENNCARE/MEDICARE ACCESS:
The applicant participates in the Medicare and TennCare/Medicaid programs. JCMC contracts with AmeriGroup, United Healthcare Community Plan, BlueCare, and TennCare Select.

The following chart provides the applicant's projected payor sources for year one.

	Year 1 Projected Revenue	% of Total
Managed Medicare/Managed Care	$1,847,024	38.7%
TennCare/Medicaid	$959,307	20.1%
Commercial/Other Managed Care	$1,589,300	33.3%
Charity/Self-Pay	$157,498	3.3%
Other	$219,543	4.6%
Total	$4,772,673	100%

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:
The Department of Health, Division of Policy, Planning, and Assessment have reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine if they are mathematically accurate and if the projections are based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Project Costs Chart: The Project Costs Chart is located page 31 of the application. The total project cost is $2,023,108.

Historical Data Chart: The Historical Data Chart is located in Supplemental 1. The applicant reported 130,407, 129,559, and 129,415 patient days in 2014, 2015, and 2016, with net operating revenues of $29,995,815, $60,004,703, and $50,311,956 each year respectively.

Projected Data Chart: The Total Projected Data Chart is located in Supplemental 1. The applicant projects 112,079 patient days in 2018 and 111,866 patient days in 2019 with net operating income of $55,768,000 and $57,837,000, each year, respectively.

The Projected Data Chart for Total Johnson City Medical Center MRI Services is located in Supplemental 1. The applicant projects 10,365 and 10,373 inpatient and outpatients procedures in 2018 and 2019, with a net operating income of $2,074,970 and $2,116,902 each year, respectively.

The applicant provides their gross charges, deductions from revenue, and average net charge below.

Average Gross, Deduction, and Net Charges

	Previous Year	Current Year	Year 1	Year 2	% Change
Gross Charge	$4,093	$3,911	$4,554	$4,594	17.5%
Deduction from Revenue	$3,560	$3,371	$4,126	$4,164	23.5%
Average Net Charge	$533	$540	$428	$430	-20.4%

The applicant's charges compare favorably with other hospitals across Tennessee.

JCMC currently has 7.9 FTE MRI technologists and project adding 1.0 FTE for a total of 8.9 FTE MRI technologists in year one of the project.

JCMC had three options they considered in regard to this project. The first option was to maintain the status quo. This was rejected because the 4 weeks wait time for adult moderate sedation procedures and 5.5 weeks wait times for pediatric moderate sedation procedures; and 2 weeks for anesthesia procedures for adult and pediatric were unacceptable.

The applicant considered the initiation of mobile MRI services but this was rejected due to cost and location. The applicant determined the purchase of a 1.5 Tesla scanner was the most cost effective and clinically appropriate solution.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:
The applicant states they work closely with other healthcare providers in the region including MSHA hospitals in their network, East Tennessee State University James H. Quillen College of Medicine, local nursing homes, clinics and other healthcare providers. Additionally, East Tennessee State University has an affiliation with Johnson City Medical Center to provide clinical training for medical students and residents in the area of family medicine and psychiatric services. MSHA has existing transfer agreements with other area hospitals including those in the Wellmont Health System and Laughlin Memorial Hospital.

QUALITY MEASURES

JCMC is licensed as an acute care hospital, pediatric general hospital, and level 1 trauma center by the Tennessee Department of health, Board for Licensing Health Care Facilities and accredited by The Joint Commission.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan.*

MAGNETIC RESONANCE IMAGING SERVICES

Standards and Criteria

1. Utilization Standards for non-Specialty MRI Units.

    a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

    The applicant's two existing MRI units provided 6467 scans in 2015, 0r 3,234 per unit. The addition of a third MRI on the main campus will result in the volume being distributed over the three units. The applicant anticipates an additional 1,048 inpatient and outpatient scans, with an average of 2,505 scans per unit.

    b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

    Not Applicable.

    c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

    Not Applicable.

    d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

    Not applicable.

    e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with other medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

Not applicable.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

   The applicant's service area is Carter, Green, Sullivan, and Washington counties. Seventy-seven per cent of JCMC's MRI patient population originated from the service area counties.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

   JCMC had three options they considered in regard to this project. The first option was to maintain the status quo. This was rejected because the 4 weeks wait time for adult moderate sedation procedures and 5.5 weeks wait times for pediatric moderate sedation procedures; and 2 weeks for anesthesia procedures for adult and pediatric were unacceptable.

   The applicant considered the initiation of mobile MRI services but this was rejected due to cost and location. The applicant determined the purchase of a 1.5 Tesla scanner was the most cost effective and clinically appropriate solution.

4. Need Standard for non-Specialty MRI Units.

   A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

   Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

   Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

Service Area MRI Utilization

County	***Facility***	***Number of Units***	***2013***	***2014***	***2015***
Carter	*Sycamore Shoals Hospital*	*.85*	*1719*	*1880*	*1818*

Carter	*Medical Care PLLC*	*.15*			*126*
Greene	*Laughlin Memorial Hospital*	*2*	*3159*	*3248*	*3284*
Greene	*Takoma Regional Hospital*	*1*	*1610*	*2224*	*1880*
Sullivan	*Appalachian Associates PC*	*1*	*214*	*183*	*0*
Sullivan	*Bristol Regional Medical Center*	*2*	*6323*	*6151*	*8452*
Sullivan	*Holston Valley Imaging*	*3*	*8787*	*6516*	*8970*
Sullivan	*Holston Valley Medical Center*	*1*	*3326*	*2867*	*3148*
Sullivan	*Indian Path Medical Center*	*1*	*2807*	*2913*	*3173*
Sullivan	*Meadowview Outpatient Diagnostic Center*	*1*	*4350*	*4187*	*4178*
Sullivan	*Sapling Grove Outpatient Diagnostic Center*	*1*	*2245*	*2231*	*2158*
Sullivan	*Volunteer Parkway Imaging Center*	*1*	*1239*	*1153*	*1413*
Washington	*Appalachian Orthopaedic Associates*	*1*	*188*	*123*	*0*
Washington	*Franklin Woods Community Hospital*	*1*	*3529*	*3772*	*4432*
Washington	*Johnson City Medical Center*	*2*	*6617*	*6575*	*6467*
Washington	*Mountain States Medical Center at Med Tech Pkwy*	*1*	*2448*	*2328*	*2666*
Washington	*Watauga Orthopaedics*	*1*	*2337*	*2221*	*2465*
	Total	***21***	***50,496***	***48,572***	***54,630***

HSDA Equipment Registry

The service area utilization is 90.3% of capacity, while JCMC is 112.3% of capacity (2880).

5. Need Standards for Specialty MRI Units.

   a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to acquire a dedicated fixed or mobile breast MRI unit shall not receive a CON to use the MRI unit for non-dedicated purposes and shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:

      1. It has an existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MRI unit equipment, and

that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;

2. Its existing mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit are in compliance with the federal Mammography Quality Standards Act;

3. It is part of or has a formal affiliation with an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is based in the proposed service area.

4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, and primary care providers.

Not applicable.

b. Dedicated fixed or mobile Extremity MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Extremity MRI Unit and a CON granted for this use should so state on its face.

Not applicable.

c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Multi-position MRI Unit and a CON granted for this use should so state on its face.

Not applicable.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. If data availability permits, Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each

category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

The additional MRI unit proposed in this project will be a non-specialty MRI unit and will be reported in the non-specialty category.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

A. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

Siemens Healthcare and the FDA provided documentation regarding the equipment associated with the project.

B The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

The applicant ensures the physical environment resulting from the project complies with all applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

JCMC currently has protocols in place to appropriately care for emergent patients, and no changes to those will be made as a result of the project.

d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

MSHA has established protocols across all facilities', radiology departments and central business office to ensure that all MRI procedures performed are medically necessary.

e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

JCMC's MRI services are accredited by the American College of Radiology.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

JCMC's MRI services are accredited by the American College of Radiology.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

MSHA has existing transfer agreements with other area hospitals including those in the Welmont Health System and Laughlin Memorial Hospital.

7. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

JCMC agrees to provide all required data.

8. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration.

Carter County is designated as a MUI.

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

JCMC is a Level 1 Trauma Center and a Pediatric General Hospital.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

JCMC participates in multiple TennCare/Medicaid MCOs that serve the area.

d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

The MRI services as part of the project will be provided for inpatients, outpatients, and patients requiring emergency services. The clinical applications include MRI procedures requiring sedation, including anesthesia, for both adults and pediatric patients. Other clinical applications include advanced neurology capabilities with diffusion/perfusion, high resolution angiography and abdominal imaging, and total body imaging utilized for oncology studies.